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# 1961 ANNUAL REPORT

# RAPID-AMERICAN CORPORATION

# RAPID-AMERICAN CORPORATION

## Annual Report

FOR THE YEAR ENDED JANUARY 31, 1962

### CONTENTS

# RAPID-AMERICAN CORPORATION

## DIRECTORS

*James Heller
Bernard Kobrovsky
Leonard C. Lane
Samuel J. Levy
James Lutz
Alfred T. Manacher
*Meshulam Riklis
Charles H. Sheldon
Herbert D. Silver
*Lorence A. Silverberg
Melvin Unterman
*Harry H. Wachtel
*Jacob S. Weinstein

**Member of Executive Committee*

## OFFICERS

Meshulam Riklis . . . *President & Chairman of the Board*
Harry H. Wachtel . . . *Vice Chairman of the Board & Executive Vice President*
Jacob S. Weinstein . . . *Chairman of Executive Committee*
Alfred T. Manacher . . . *Chairman of Acquisition Committee*
Isidore A. Becker . . . *Vice President & Treasurer*
Joseph B. Russell . . . *Secretary*
Albert K. Lippmann . . . *Comptroller*
Haim Bernstein . . . *Assistant to the President*

**GENERAL COUNSEL**
Wachtel & Michaelson, New York, N. Y.

**AUDITORS**
Haskins & Sells, New York, N. Y.

**TRANSFER AGENT**
Chemical Bank New York Trust Company, New York, N. Y.

**REGISTRAR**
The Chase Manhattan Bank, New York, N. Y.

**LISTINGS**
American Stock Exchange (Common Stock & Debentures)
Cincinnati Stock Exchange (Common Stock)

**EXECUTIVE OFFICES**
711 Fifth Avenue, New York 22, N. Y.

## DIVISIONS

### ALAN JAY-CLAROLYTE DIVISION
Bronx, N. Y.

### AMERICAN ART WORKS DIVISION
Coshocton, Ohio

### AMERICAN MERCHANDISING DIVISION
Chicago, Ill.

### CELLU-CRAFT PRODUCTS DIVISION
New Hyde Park, N. Y.

### CHILDREN'S WEAR DIVISION
New York, N. Y.

### CITRUS PRODUCTS DIVISION
Orlando, Fla.

### THE RAPID ELECTROTYPE DIVISION
New York, N. Y.

## To Our Shareholders:

The past year for Rapid-American Corporation was a year that saw major expansion and diversification of our base of operations through the acquisition of nine companies, the consolidation of our divisions under an augmented management team and the initiation of steps to increase our holdings in McCrory Corporation.

During 1961, we acquired, largely for stock and with a minimum of cash, the following companies: Cellu-Craft Products Corp., now operating as our Cellu-Craft Products Division; Heller Brothers Packing Co. and Lakeland Packing Co., which have been consolidated into our Citrus Products Division; Hi-Line Co. Inc., Young Sirs, Inc., Happen, Inc., Merry Mites, Inc., and Gay Sprites, Inc., which operate now as parts of our new Children's Wear Division. In November 1961, our Cellu-Craft Products Division purchased all of the outstanding stock of Bagphane Corporation, a leading designer, printer and converter of film foils and papers for the packaging industry.

The dominant factor in all of these acquisitions, in addition to their histories of profitable operations, is their strong consumer orientation. They are major suppliers of basic consumer needs: food, clothing and consumer-goods packaging. Lakeland Packing Co., for example, was the world's largest independent shipper of fresh grapefruit. Cellu-Craft was the nation's No. 1 independent converter, designer and printer of flexible consumer packaging materials. Merry Mites and Gay Sprites are known throughout the country as leading brand names in the field of high-priced, high-styled children's wear.

These companies lend more than prestige to Rapid-American Corporation. They add muscle and tendon to our corporate structure as a diversified manufacturing and distribution organization. Their acquisition brings to your company a cast of experienced management personnel distinguished for the remarkable success they have achieved in their respective fields. The contribution of these men to the overall strength of our management structure and the future growth of your company should be most substantial.

A reflection of this new management depth was the election during 1961 of three new members to the Rapid-American board of directors. Elected were James Lutz, president of McCrory Corporation, Samuel J. Levy, president of the Cellu-Craft Products Division of Rapid-American, and Charles H. Sheldon, former president of Hi-Line Co. and now president of our Children's Wear Division. James Heller, president of Heller Bros. Packing Co., was named to our board of directors and executive committee in 1960.

Your company's position in the retail merchandising field through its holdings in McCrory Corporation was considerably enhanced last year by the merger of H. L. Green Company, Inc., into McCrory Corporation and the purchase by McCrory of more than 90 per cent of the outstanding common stock of Lerner Stores Corporation and Economy Auto Stores, Inc.

The new McCrory Corporation, with its more than 1,500 stores encompassing virtually every phase of non-foods chain store merchandising, has dramatically increased its stature on the national retail scene. Many of the advances in management, merchandising and new store planning techniques envisioned for McCrory in 1960 were implemented last year. An emphasis on first-rate management ability at all levels has added to the McCrory ranks

some of the brightest talents in the field of retail administration, buying and new store planning. Management is proud of McCrory's progress to date, as set forth in more comprehensive detail in the accompanying annual report of McCrory Corporation.

During the latter part of 1961, your company took an important step toward increasing its holdings in McCrory Corporation by granting shareholders and bondholders subscription rights to $8,367,000 in new 5¾ per cent Convertible Subordinated Debentures due January 1, 1977, the proceeds of which are to be used by Rapid-American mainly for the orderly purchase over a period of time of the common stock of McCrory Corporation.

It should be emphasized here that no underwriters were involved in the rights offering, which was a direct offering by the company to its shareholders and bondholders. This was a successful continuation of a policy initiated by the company in its 1959 offering of convertible debentures. Our new debenture issue was oversubscribed by approximately $4 million. Management is most gratified by this expression of confidence in Rapid-American on the part of its holders.

With the termination of the new debenture offering, your company on February 21, 1962, redeemed the $29,100 remaining outstanding of the 5¾ per cent Convertible Subordinated Debentures due April 30, 1964, at a redemption price of $101.50. It should be noted that 99.6 per cent of the $7,209,600 originally issued of the 5¾ per cent Convertible Subordinated Debentures due April 30, 1964, was converted into common stock from time to time since 1959.

The positions of our other divisions—Rapid Electrotype, American Merchandising, American Art Works and Alan Jay-Clarolyte—were considerably strengthened in their respective markets last year, and 1962 should show further gains. In the text of this report will be found a detailed discussion of each of the company's seven divisions.

Much of the credit for the strides taken by Rapid-American last year belongs to its employees, whose efforts on behalf of the company were given unstintingly. Management is happy to report that as of January 31, 1962, more than 440 employees of Rapid-American had availed themselves of the opportunity to become shareholders through our company's shareholder-approved stock purchase plans and that 125 employees have an ownership stake in the company's future under existing stock option plans. We welcome these employees as co-owners with an investment in the future of their company.

We wish to take this opportunity to thank our shareholders for the sincere interest they have expressed in Rapid-American through their many letters and inquiries. Management will make every effort to reciprocate this interest with prompt, accurate information concerning all future developments in Rapid-American as they occur.

Respectfully submitted,

M. Riklis

Meshulam Riklis
*President and Chairman of the Board*


# RAPID ELECTROTYPE DIVISION

**Mark F. Beck** . . . Chairman

**William L. Westerman** . . . President

**Harry C. Rowe** . . . Senior Vice President & Director of Research

**Mark F. Beck, Jr.** . . . Vice President & General Manager, New York Plant

**Edward M. Baker, Jr.** . . . Vice President & General Manager, Philadelphia Plant

**James P. Terry** . . . Vice President & General Manager, Cincinnati Plant

**Stanley C. Mette** . . . Vice President & General Manager, Detroit Plant

**Berne Abelew** . . . Vice President & Western Regional Manager

**Frederick J. Winter** . . . National Sales Manager

**Edward J. Gluck** . . . Comptroller

**PLANT LOCATIONS**

Cincinnati, Ohio — Detroit, Mich. — New York, N. Y. — Philadelphia, Pa. — San Francisco, Calif.

**DIVISION OFFICE**

711 Fifth Avenue, New York 22, N. Y.

The RAPID ELECTROTYPE DIVISION instituted several major improvements and introduced a number of important new products during 1961 that should have a salutary effect on its earnings for the current year. The division—with plants in New York, Philadelphia, Cincinnati, Detroit and San Francisco—continued to maintain its position as one of the nation's two largest duplicate printing plate manufacturers servicing advertising agencies, newspapers, national magazines and trade publications as well as job printers and carton manufacturers.

A major operational improvement of 1961 was the expansion of the division's engraving department in Philadelphia to include camera and darkroom facilities. These facilities are already making it economically feasible for us to provide customers throughout the country with a complete dealer mat service. The past year also saw the completion of installation of new equipment in all our plants, enabling us to double the current production rate for thermosetting plastic plates, which are fast becoming a primary vehicle for magazine printing. Our plastic-backed electrotype, pioneered by our Cincinnati plant for quality rotary letterpress printing, has gained widespread acceptance throughout the publishing field. We are now beginning to realize substantial returns on the costs incurred in developing this product.

Your management believes that these operational improvements will enhance 1962's results.

**Bernard Kobrovsky** . . . Chairman

**Charles C. Rehfeldt** . . . President

**Alan G. Longstaff** . . . Executive Vice President

**Warren D. Keefe** . . . Vice President

**Albert F. Snyder** . . . Vice President

**John Daly** . . . Comptroller

**Edward G. Goffron** . . . Division Merchandise Manager

**Clayton A. Nielsen** . . . Division Merchandise Manager

**Elwood A. Smith** . . . Division Merchandise Manager

**William R. Bolton** . . . Division Merchandise Manager

**Anne D. Mullen** . . . Division Merchandise Manager

**Sol Alperstein** . . . Division Merchandise Manager

**PLANT LOCATIONS**

Chicago, Ill. New York, N. Y. Philadelphia, Pa.

LeCenter, Mankato and New Ulm, Minn.

**DIVISION OFFICE**

218 South Wabash Avenue, Chicago 7, Ill.

The AMERICAN MERCHANDISING DIVISION engages principally in selling by mail order, distributing the L & C Mayers catalogue throughout the East and the Spors catalogue primarily in the Midwest. These annual catalogues feature house and garden equipment, jewelry, furs, silverware, giftware, sporting goods, cameras, automotives, radios, office equipment and soft goods as well as a variety of other merchandise.

Nineteen hundred and sixty-one was a year of extensive reorganization, expansion and internal improvement, all with a view to increasing efficiency and service and reducing costs. Buying, cataloguing and production activities for L & C Mayers Company and Spors Company, merged in 1961, were consolidated in new executive offices in Chicago. Warehousing, shipping and general offices were centralized in LeCenter, Minn. A 50,000 square foot addition increased our warehouse facilities to 160,000 square feet. Our Mayers' Philadelphia showroom moved to enlarged quarters containing 15,000 square feet of space. New conveyor systems were installed to facilitate the handling of goods on a multiple-order time schedule; an antiquated computer system was replaced with a new Univac Solid State 90-Step Computer. Major revisions and improvements were also introduced in the areas of credit handling, warehouse order handling, invoicing, bookkeeping, warehouse layout and distribution.

In October 1961, an experimental Catalogue Store was opened in Mankato, Minn., with excellent consumer response. Operating results of this unit will determine the feasibility of additional units.

Our management now under the direction of the division's new president, Charles C. Rehfeldt, was augmented by the addition of 14 new executives and buyers, all with many years of experience in the mail order business. Among the new appointees were Alan Longstaff, former Denver mail order manager for Montgomery Ward; Warren D. Keefe, also formerly of Montgomery Ward, and Albert F. Snyder, former Montgomery Ward creative sales manager.

# AMERICAN MERCHANDISING DIVISION

The AMERICAN ART WORKS DIVISION, one of the country's leading manufacturers of metal and plastic signs, metal displays and fabricated metal parts, is located in Coshocton, Ohio. It has approximately 200,000 square feet of manufacturing space in addition to 100,000 square feet of storage area. The division serves a host of leading national advertisers with signs and displays.

The year 1961 was the turning point for this division. Its loss history was reversed and its operations were profitable. This was accomplished by consolidating the metal sign and display sections and increasing the emphasis on commercial and industrial work, thus allowing for greater economy and efficiency in serving our national accounts with their sign and display requirements.

Significant in this regard, the division was awarded a substantial contract to manufacture a thermostat-controlled electrically operated appliance for home heating. In addition, the latter part of 1961 found the division actively working with the Federal government on Defense Department items which will be manufactured by the division this year.

During the summer of 1961, American Art Works began organizing a staff and installing equipment for a plastic illuminated sign department. A line of molded plastic signs was introduced toward the end of the year, and industry response has been most encouraging. Orders for national distribution are already being shipped from this department. The division anticipates substantial profits from its plastic signs during the current year.

Our management team has been strengthened with the addition of new personnel, and the division's research program has been intensified.

Earnings for 1962 are expected to be notably in excess of those achieved last year.


# AMERICAN ART WORKS DIVISION


**Leonard C. Lane** . . . Chairman

**Sumner M. Levine** . . . President

**Taylor B. Toomey** . . . Vice President & Plant General Manager

**Martin P. Murphy** . . . Vice President in Charge of Sales

**Donald H. Molesworth** . . . Vice President

**Robert Bishop** . . . Comptroller

**PLANT LOCATIONS**

Coshocton and Cincinnati, Ohio

**DIVISION OFFICE**

711 Fifth Avenue, New York 22, N. Y.

# ALAN JAY-CLAROLYTE DIVISION

**Sam Buchman** . . . President
**Murray Backelman** . . . Vice President in Charge of Production
**J. Daniel Simon** . . . Vice President in Charge of Sales
**Harold Fink** . . . Comptroller
**Sid Shacht** . . . Production Manager
**Harold Shacht** . . . Manager, Packaging Division

**PLANT LOCATION**
Bronx, N. Y.

**DIVISION OFFICE**
2927 White Plains Road, Bronx 67, N. Y.

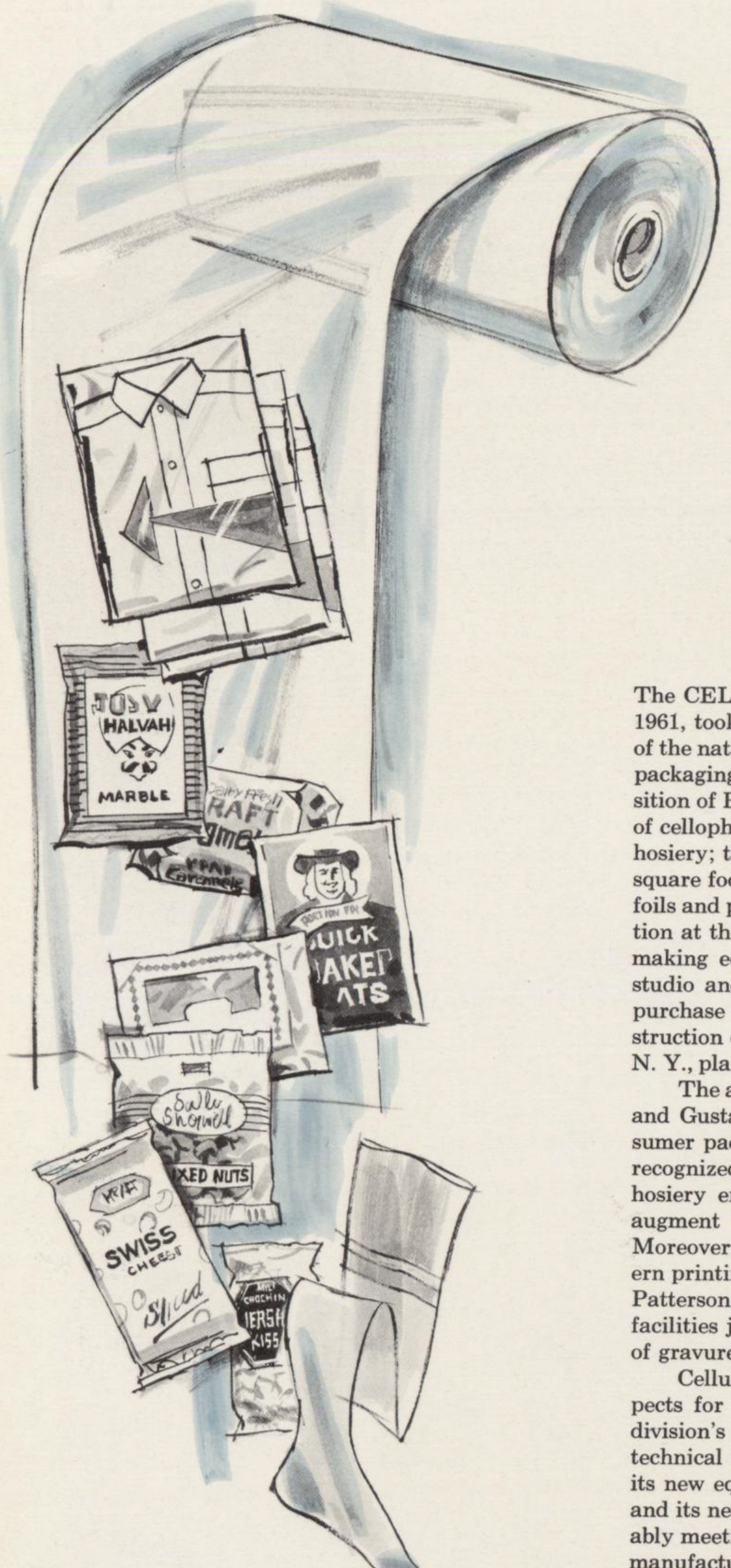
The ALAN JAY-CLAROLYTE DIVISION, with headquarters in New York, is a leading manufacturer of diversified lines of plastic products, particularly accessories and playthings for infants and children. The lines marketed include rattles, teething rings, crib gadgets, infants' toys and baby feeding devices—more than 200 items retailing at from 29 cents to $5 each.

Last year was the first full year of operation as a division of Rapid-American Corporation. In addition to the physical integration of the two companies, a new sales force was established which has already achieved impressive results. Products are sold principally through wholesalers.

During 1961, new cost control procedures were introduced resulting in improved manufacturing efficiency. A new package identity was created and many new products added to give our revamped sales force ammunition to increase our sales and earnings.

Continued sales and earnings increases are predicted for 1962.

# CELLU-CRAFT PRODUCTS DIVISION




**Samuel J. Levy** . . . President
**Milton I. Bennett** . . . Executive Vice President
**Joseph L. Levy** . . . Vice President
**Sidney J. Reed** . . . Comptroller
**John Cozza** . . . Director of Marketing
**Howard N. Slade** . . . Manager, Operations Division
**Lewis F. Reed** . . . Manager, Research & Development Division
**Joseph C. Russell** . . . General Manager, Laminex Division
**Harold M. Belmuth** . . . Director of Marketing, Laminex Division
**Fred J. Meyer** . . . General Manager, Southern Plant

**PLANT LOCATIONS**

New Hyde Park, N. Y. Hialeah, Fla.

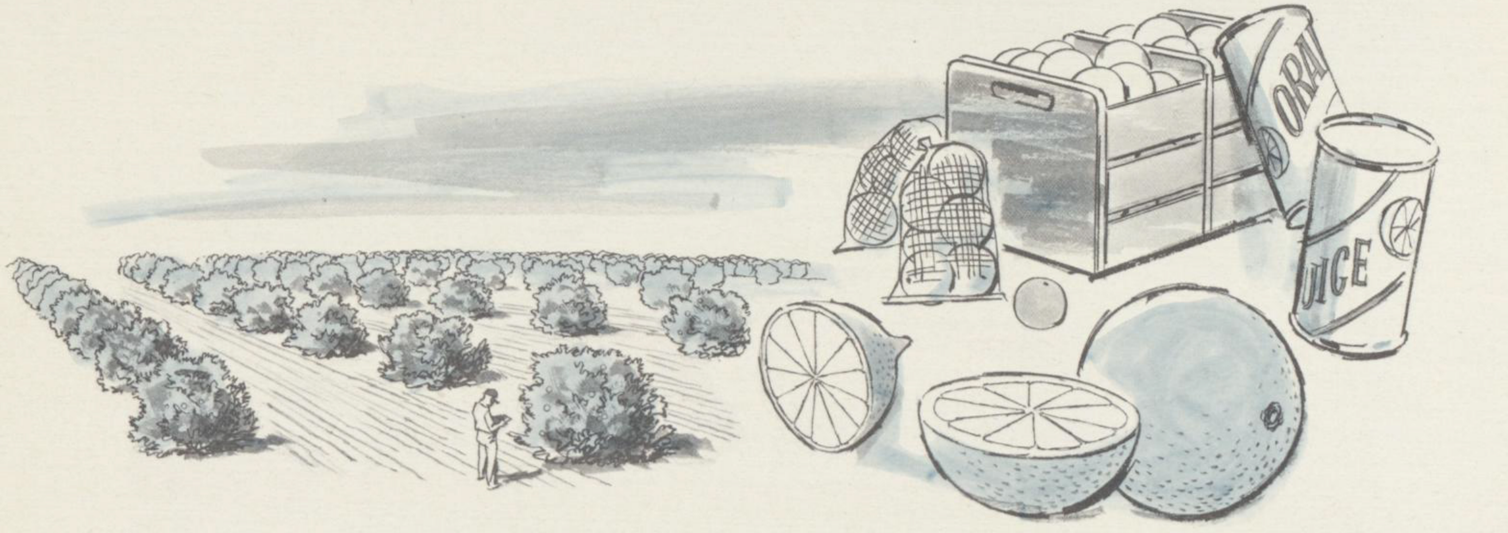
**DIVISION OFFICE**

1401 Fourth Avenue, New Hyde Park, N. Y.

The CELLU-CRAFT PRODUCTS DIVISION, formed in April 1961, took major steps last year to strengthen its position as one of the nation's leading designers, printers and converters of flexible packaging materials. Among the highlights of 1961 were the acquisition of Bagphane Corporation, Flushing, N. Y., a major supplier of cellophane packaging for the soft goods field, with emphasis on hosiery; the start of production in the Laminex Division, a 30,000 square foot plant producing extrusion coated and laminated films, foils and papers as well as unsupported polyethylene film; installation at the Southern Plant in Hialeah, Fla., of polyethylene film-making equipment; the enlargement of Cellu-Craft's central art studio and the opening of a new plate making department; the purchase of new multi-color printing presses and the start of construction on a 40,000 square foot addition to the New Hyde Park, N. Y., plant.

The addition of Bagphane to Cellu-Craft's Southern, Laminex and Gustave Rubner divisions solidifies our position in the consumer packaging field. At the time of acquisition, Bagphane was recognized as the country's second largest producer of cellophane hosiery envelopes. Its entry into Rapid-American will serve to augment Cellu-Craft's own extensive line of textile packaging. Moreover, Bagphane brings into the Cellu-Craft complex the modern printing and converting equipment acquired from the Whiting Patterson Co. of Philadelphia in July 1961. Bagphane expanded its facilities just prior to acquisition by Cellu-Craft with the addition of gravure printing to its flexographic printing operation.

Cellu-Craft Products enters fiscal 1962 with the brightest prospects for record sales and earnings in its 25-year history. The division's mature, well-balanced internal organization, its broad technical knowledge of all aspects of the flexible packaging field, its new equipment and production resources, its alert sales force and its newly diversified outlook are all well geared toward profitably meeting the expanding packaging needs of consumer product manufacturers on every level.




# CITRUS PRODUCTS DIVISION

The CITRUS PRODUCTS DIVISION in Florida represents a consolidation of Heller Bros. Packing Co. of Winter Garden and Lakeland Packing Co. of Lakeland, both of which were acquired in November 1961. With this acquisition we are the largest independent fresh fruit shipper in Florida.

The new division is a major factor in the packing, shipping and sale of fresh citrus fruits and in the processing and canning of frozen citrus concentrate.

Much of the canning and processing is done by the Winter Garden Citrus Products Cooperative in which the division holds a 22.4 per cent stock interest.

Through Lakeland Packing, the division currently occupies the No. 1 position among the world's shippers of fresh grapefruit. The division ships almost two million boxes of fresh fruit each year in addition to approximately one million boxes which are processed into frozen and canned products, totaling more than 300 million pounds of fruit.

The bulk of the citrus shipped by the division is purchased from independent growers throughout the central Florida area. In addition, the division owns three citrus groves in the Orlando area.

Along with the acquisition of Heller Bros. and Lakeland, your company acquired the harvesting equipment of the Harvey Harvesting Company, now an integral part of the Citrus Products Division.

During 1961, the operations of Citrus Products continued to be conducted on a profitable basis. Your company feels that this solidly established division, with its knowledgeable management and proven record of growth, will continue to show improved earnings during the period ahead.

**James Heller** . . . President

**Milton S. Heller** . . . Consultant

**Sam A. Banks** . . . General Manager, Lakeland Packing Co.

**T. Robin Banks** . . . General Manager, Heller Bros. Packing Co.

**Robert Bradford** . . . Manager, Fresh Fruit & Cannery Division, Heller Bros. Packing Co.

**Charles Holober** . . . Comptroller, Lakeland Packing Co.

**Ralph Horne** . . . Comptroller, Heller Bros. Packing Co.

**PLANT LOCATIONS**

Winter Garden and Lakeland, Fla.

**DIVISION OFFICE**

711 Fifth Avenue, New York 22, N. Y.

Our new CHILDREN'S WEAR DIVISION, formed in November 1961, currently includes Hi-Line Co. Inc., Young Sirs, Inc., Happen, Inc., Merry Mites, Inc., and Gay Sprites, Inc.

As constituted at present, Children's Wear maintains a position of strong brand acceptance in both the high-priced and popular-priced boys' clothing field and the couturier girls' clothing field. Hi-Line, Young Sirs and Happen and their subsidiaries manufacture and distribute a leading line of popular-priced boys' wear that includes sports and dress clothing, slacks and shirt sets and their coordinates. This line is carried by more than 3,000 department stores and specialty clothing shops from coast to coast.

Merry Mites and Gay Sprites are sister companies that supply wardrobe fashion lines of boys' and girls' clothing to better-name department stores and specialty shops across the country. They specialize in the design and manufacture of coordinated sportswear, shorts and shirt sets, Eton suits and mix-and-match shirts, skirts, jumpers, jackets and trousers. During 1962, the two companies will concentrate on the further development of their new lines of infants' wear, outerwear and coats.

One of Children's Wear's major objectives for the current year will be the completion of plans for the international licensing of its exclusive styles, patterns and fabric selections to foreign manufacturers. Hi-Line has already granted licenses to quality manufacturers in Australia, Argentina and Canada, and additional licenses will undoubtedly be granted during the remainder of 1962.

The sales and earnings outlook for Children's Wear in 1962 continues to be exceptionally favorable. Economists have predicted a steady increase in the sale of children's clothing for the foreseeable future. To meet the expected sales increase, and to achieve production economies, the division's management has been authorized to expand its facilities by means of a new plant and acquisitions.

# CHILDREN'S WEAR DIVISION

**Lorence A. Silverberg** . . . Chairman

**Charles H. Sheldon** . . . President

**Phyllis R. Berens** . . . Vice President

**Julius Wolf** . . . Comptroller

**PLANT LOCATIONS**

Brooklyn, N. Y. Mercersburg, Pa.

**DIVISION OFFICE**

112 West 34th Street, New York 1, N. Y.

## ACCOUNTANTS' OPINION

RAPID-AMERICAN CORPORATION:

We have examined the consolidated balance sheet of Rapid-American Corporation and subsidiaries as of January 31, 1962 and the related statements of consolidated income (except the statement of income of Heller Bros. Packing Co.) and shareholders' equity for the periods (indicated in Note 1 to the accompanying financial statements) then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances; we did not observe the taking of the physical inventories of Hi-Line Co. Inc. and affiliates and Merry Mites, Inc. and affiliates as of any date prior to January 31, 1962, as we were not engaged as auditors of those companies until after the dates when the physical inventories were taken, but we carried out other auditing procedures with respect to such inventories. As to the statement of income of Heller Bros. Packing Co., we were furnished with a report of other accountants on their examination of such statement.

In our opinion, which in so far as it relates to the statement of income of Heller Bros. Packing Co. is based solely upon the reports of other accountants referred to above, the accompanying consolidated balance sheet and statements of consolidated income and shareholders' equity, with their notes, present fairly the financial position of Rapid-American Corporation and subsidiaries as of January 31, 1962 and the results of their operations for the indicated periods then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

New York, N. Y.
April 20, 1962

HASKINS & SELLS
*Certified Public Accountants*

## ASSETS

| | | |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash | | $ 6,005,298 |
| Accounts and notes receivable: | | |
| Trade | $ 5,609,835 | |
| Other | 917,265 | |
| | 6,527,100 | |
| Less reserves | 99,017 | 6,428,083 |
| Inventories—at lower of cost or market | | 7,506,442 |
| Prepaid expenses, etc. | | 1,216,175 |
| TOTAL CURRENT ASSETS | | 21,155,998 |
| INVESTMENTS—At cost: | | |
| McCrory Corporation—(Note 2) | 30,656,453 | |
| Other | 584,816 | 31,241,269 |
| PROPERTY, PLANT, EQUIPMENT AND LEASEHOLD IMPROVEMENTS—At cost | 9,933,527 | |
| Less accumulated depreciation and amortization | 4,724,166 | |
| | 5,209,361 | |
| Net excess of cost of investment in subsidiaries over underlying book value of assets at date of acquisition; less accumulated amortization | 537,243 | 5,746,604 |
| OTHER ASSETS AND DEFERRED CHARGES: | | |
| Notes receivable (non-current portion)—(Note 3) | 6,847,919 | |
| Unamortized debt discount and expense | 457,280 | |
| Other | 672,291 | 7,977,490 |
| TOTAL | | $66,121,361 |

*See notes to financial statements.*

## BALANCE SHEET JANUARY 31, 1962

### LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable | | $ 7,237,129 |
| Currently maturing debentures and notes payable | | 4,257,128 |
| Accrued liabilities: | | |
| Federal income taxes | | 355,452 |
| Other taxes | | 271,200 |
| Salaries, wages, commissions, etc. | | 369,718 |
| Interest | | 274,476 |
| TOTAL CURRENT LIABILITIES | | 12,765,103 |
| OTHER LIABILITIES: | | |
| 7% Sinking Fund Subordinated Debentures due November 15, 1967, less Debentures in treasury, $160 (less current portion—Note 4) | $ 4,003,824 | |
| 5¾% Convertible Subordinated Debentures due January 1, 1977 (Note 5) | 8,367,000 | |
| 4½%-6% Notes due 1963 to 1976 (Note 6) | 13,462,537 | 25,833,361 |
| SHAREHOLDERS' EQUITY (per accompanying statement): | | |
| 5% cumulative preferred stock, $100 par value per share, redeemable at $105 per share; authorized 200,000 shares—none issued | | |
| Common stock—authorized 10,000,000 shares of $1 par value each; issued 2,071,700 shares; less stock in treasury 18,593 shares; outstanding 2,053,107 shares (Notes 7 and 8) | 2,053,107 | |
| Capital surplus | 14,392,275 | |
| Earned surplus | 11,077,515 | 27,522,897 |
| TOTAL | | $66,121,361 |

*See notes to financial statements.*

# RAPID-AMERICAN CORPORATION

AND SUBSIDIARIES (NOTE 1)

## STATEMENT OF CONSOLIDATED INCOME

FOR THE YEAR ENDED JANUARY 31, 1962

| | | |
|---|---|---|
| NET SALES | | $49,273,078 |
| DIVIDENDS RECEIVED | | 1,650,693 |
| RENTALS, INTEREST AND SUNDRY INCOME—Net | | 728,887 |
| | | 51,652,658 |
| COST OF GOODS SOLD, RENT, ETC. | | 38,830,229 |
| | | 12,822,429 |
| DEDUCT: | | |
| Operating, selling, general and administrative expenses | $9,508,584 | |
| Interest charges | 1,582,234 | |
| Depreciation and amortization | 591,234 | |
| Taxes other than Federal income taxes | 702,368 | 12,384,420 |
| INCOME BEFORE FEDERAL INCOME TAXES | | 438,009 |
| PROVISION FOR FEDERAL INCOME TAX (Net of refunds and adjustment of deferred Federal income tax, $358,907) | | 180,077 |
| NET INCOME | | $ 257,932 |

*See notes to financial statements.*

## RAPID-AMERICAN CORPORATION

AND SUBSIDIARIES (NOTE 1)

### STATEMENT OF SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED JANUARY 31, 1962

| | TOTAL | OUTSTANDING COMMON STOCK | CAPITAL SURPLUS | EARNED SURPLUS |
|---|---|---|---|---|
| BALANCE, FEBRUARY 1, 1961 . . . . | $19,492,256 | $1,380,036 | $ 9,078,592 | $ 9,033,628 |
| Transactions incident to combinations (accounted for as poolings of interests) — (Note 1) . . . . . . . . . . . | 3,969,734 | 420,900 | 841,558 | 2,707,276 |
| | 23,461,990 | 1,800,936 | 9,920,150 | 11,740,904 |
| ADD (DEDUCT): | | | | |
| Net income per accompanying statement of consolidated income . . . . . . | 257,932 | | | 257,932 |
| Cash dividends paid, $.50 per share . . . | (840,841) | | | (840,841) |
| Conversion of $3,968,000 face amount of 5¾% convertible subordinated debentures, due April 30, 1964, into 215,358 shares of common stock — par value credited to common stock account; excess of conversion price over par value (less cash paid for fractions) credited to capital surplus . . . . . . . . | 3,964,493 | 215,358 | 3,749,135 | |
| Stock issued under employee plans — 48,075 shares; par value credited to common stock account; excess of proceeds over par value credited to capital surplus . . . . . . . . . . . | 683,685 | 48,075 | 635,610 | |
| Other—net . . . . . . . . . . . . | (4,362) | (11,262) | 87,380 | (80,480) |
| BALANCE, JANUARY 31, 1962 . . . . | $27,522,897 | $2,053,107 | $14,392,275 | $11,077,515 |

*See notes to financial statements.*

# NOTES TO FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company and its operating subsidiaries. The following subsidiaries were acquired during the year:

| *Name of Subsidiary* | *Date of Acquisition* |
|---|---|
| a) By purchase of all outstanding capital stock: | |
| Transpak, Inc. | July 1, 1961 |
| Lakeland Packing Company, Inc. | September 1, 1961 |
| Bagphane Corporation | August 31, 1961 |
| Transparent Advertising Corporation | August 31, 1961 |
| b) In transactions accounted for as poolings of interests: | |
| Cellu-Craft Products Corporation and subsidiaries | April 1, 1961 |
| Heller Bros. Packing Co. | September 1, 1961 |
| Hi-Line Co. Inc. and affiliates | November 18, 1961 |
| Merry Mites, Inc. and affiliates | November 18, 1961 |

Transpak, Inc. and Cellu-Craft and its subsidiaries (except Gustave Rubner, Inc.) were merged into the Company as of July 31, 1961. Heller Bros. was merged into the Company as of January 31, 1962. Lakeland Packing and Merry Mites, Inc. and affiliates were merged into L. & C. Mayers Co., Incorporated, a subsidiary, as of January 31, 1962.

The investment in a subsidiary by the Company and the investment of a subsidiary in one of its subsidiaries are in excess of the equity in the net assets of such subsidiaries in the aggregate amount of $537,243, which is reflected in property, plant, equipment and leasehold improvements (being amortized over ten years) in the accompanying consolidated balance sheet as net excess of cost of investment in subsidiaries over underlying book value of assets at date of acquisition.

The consolidated financial statements include the subsidiaries acquired by purchase; Transpak, Inc. commencing July 1, 1961 and the remaining three companies commencing September 1, 1961. Such operations resulted in net sales of $3,346,427 and a net loss of $3,096.

The consolidated financial statements include the subsidiaries acquired in transactions accounted for as poolings of interests for those periods which closely approach the fiscal year of the Company as follows:

| *Subsidiary* | *Period* *From* | *To* |
|---|---|---|
| Cellu-Craft Products Corporation and subsidiaries | January 1, 1961 | January 31, 1962 |
| Heller Bros. Packing Co. | October 1, 1960 | September 30, 1961 |
| Hi-Line Co. Inc. and affiliates | January 1, 1961 | December 31, 1961 |
| Merry Mites, Inc. and affiliates | October 1, 1960 | September 30, 1961 |

Such operations resulted in net sales of $23,858,307 and net income of $862,279.

Operations of the three last named subsidiaries for the periods from the ends of their fiscal periods to January 31, 1962 resulted in an aggregate net loss of $33,338, which has been charged directly to earned surplus in the accompanying consolidated financial statements.

2. INVESTMENT IN McCRORY CORPORATION:

At January 31, 1962 the Company owned 1,967,348 shares of common stock of McCrory Corporation, which represented approximately 35% of the then outstanding common stock and had a market quotation value of $47,708,000 at January 31, 1962. The Company's equity in the net assets of McCrory Corporation based on its financial statements as of December 31, 1961 was in excess of the carrying value of the investment ($30,656,453) shown in the accompanying balance sheet. Reference is made to Note 6 herein for information concerning McCrory common stock pledged as collateral.

3. NOTES RECEIVABLE (non-current portion):

At the end of its last fiscal year (January 31, 1961) the Company completed the sale of the assets and business of its American Paper Specialty Division to APS Paper Corp. (a corporation organized by and owned in part by former officers and employees of the Company).At January 31, 1962 the Company held $6,750,000 of notes receivable relating to such sale.

4. 7% SINKING FUND SUBORDINATED DEBENTURES:

The Company is obligated to make annual sinking fund payments (or to deposit principal amounts of reacquired debentures) on each November 15 sufficient to redeem 10% of debenture principal outstanding on the preceding October 31 of the years 1962 through 1966, inclusive. The sinking fund payment due November 15, 1961 was satisfied by the retirement of $485,456 of debentures. The estimated sinking fund payment ($445,000) due November 15, 1962 has been included in current liabilities in the accompanying balance sheet. On February 20, 1962 the Company offered to all holders of its 7% Sinking Fund Subordinated Debentures the opportunity to exchange the same for a new issue of 5¾% Convertible Subordinated Debentures, due January 1, 1977, convertible into common stock of the Company at $33⅓ per share to maturity. The terms of exchange provide that $80 principal amount of 5¾% Convertible Subordinated Debentures will be issued in exchange for each $100 principal amount of 7% debentures tendered for exchange. At April 19, 1962, $1,273,080 principal amount of 7% debentures had been so tendered.

5. 5¾% CONVERTIBLE SUBORDINATED DEBENTURES:

Due January 1, 1977:

In December 1961 and January 1962 the Company authorized $13,450,000 principal amount of these debentures and in January 1962 the sale of its entire offering in the principal amount of $8,367,000 was completed. The issued debentures are convertible into common stock of the Company at $33⅓ principal amount of debentures for each share of common stock, subject to anti-dilution provisions of the indenture, and are callable upon notice at principal amount with interest to redemption date. Reference is made to Note 4 herein, relating to an exchange offer involving this issue of debentures.

Due April 30, 1964:

During the year ended January 31, 1962, 5¾% Convertible Subordinated Debentures, due April 30, 1964, in the principal amount of $3,558,500 were converted into common stock of the Company. Additionally, during February 1962, $409,500 principal amount of such debentures were converted into common stock of the Company and the remaining $29,100 principal amount of these debentures were redeemed at the rate of 101½% of principal amount in accordance with the notice of redemption issued to holders on January 17, 1962. Retroactive effect has been given to the February 1962 transactions relating to these debentures in the accompanying consolidated financial statements.

6. 4½%-6% NOTES DUE 1963 TO 1976:

$12,000,000 of these notes are collateralized by the pledge of 1,631,907 shares of McCrory Corporation common stock which are owned by the Company.

Certain of these notes, other than the $12,000,000 mentioned above, were issued or assumed in connection with the acquisition of subsidiaries and at January 31, 1962 approximatey $910,000 is held by persons who are still associated with the Company or its subsidiaries.

7. COMMON STOCK AND STOCK OPTIONS:

The Company's shareholders in prior years ratified Restricted Stock Option Plans under which 275,000 shares of the Company's common stock, including such stock in treasury, are subject to option at prices of not less than 95% of the market value at date of grant, and Employees Stock Purchase Plans under which 45,000 shares of the Company's common stock are subject to offer at prices of not less than 85% of the market value at date of grant. 138,461 shares of the Company's common stock have been issued under the foregoing plans through January 31, 1962. Options covering 216,135 shares are outstanding at January 31, 1962, expiration dates are from February 1962 to 1968, and option prices per share are from $6.14 to $33.72. The aggregate of the prices for these outstanding options is approximately $4,831,000, and their approximate market quotation value on January 31, 1962 was $7,457,000. In accordance with the anti-dilution provisions of the plans, the options have been adjusted to reflect the effect of a three for two stock split in May 1960 and stock dividends of prior years.

In December 1961, the Board of Directors authorized a Restricted Stock Option Plan under which options covering an additional 100,000 shares of the Company's common stock have been authorized, and options covering 19,500 shares thereof have been granted, all subject to approval by the shareholders at their meeting to be held in May 1962.

Massachusetts Mutual Life Insurance Company holds purchase warrants entitling it to purchase 25,000 shares of the Company's common stock at $32 per share at any time before June 1, 1976. The terms of the warrants are subject to adjustments under certain conditions.

8. OTHER MATTERS:

a) There are several claims pending against the Company and its operating subsidiaries together with other contingencies. Such liability cannot be determined but management and counsel are of the opinion that the liabilities in the financial statements are adequate to cover all eventual payments.

b) The Company and its subsidiaries are obligated directly or contingently under leases expiring after January 31, 1962 for minimum annual rentals of $626,000 and total rental obligations of $3,176,000.

c) Agreements covering the indebtedness of the Company contain covenants which might affect the declaration or payment of dividends, or other distributions or purchases of the Company's stock. Under the most stringent of such covenants, earned surplus of approximately $6,550,000 at January 31, 1962 is not restricted as to the payment of dividends.

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# RAPID-AMERICAN CORPORATION
AND SUBSIDIARIES

## FIVE-YEAR SUMMARY OF NET INCOME AND SHAREHOLDERS' EQUITY (1)

| | Year Ended January 31 1962 | Year Ended January 31 1961 | Year Ended December 31 1959 | Year Ended December 31 1958 | Year Ended December 31 1957 |
|---|---|---|---|---|---|
| NET INCOME (2) | $ 257,932 | $ 7,718,765 | $ 1,415,543 | $ 1,590,356 | $ 704,562 |
| NET INCOME PER SHARE (shares outstanding at end of year) (3) | $ .13 | $4.29 | $ .92 | $1.06 | $ .49 |
| DIVIDENDS PER SHARE (3) . . . . CASH | $ .41 | $ .32 | $ .24 | $ .22 | $ .22 |
| STOCK | | | 5% | | 5% |
| SHAREHOLDERS' EQUITY | $27,522,897 | $23,461,990 | $12,954,604 | $11,730,999 | $10,102,695 |
| BOOK VALUE PER SHARE (3) | $13.41 | $13.03 | $ 8.46 | $ 7.83 | $ 7.06 |
| SHAREHOLDERS' EQUITY based on market value of 1,967,348 shares of McCrory Corporation common stock owned at January 31, 1962 | $44,574,633 | | | | |
| BOOK VALUE per share based on market value of 1,967,348 shares of McCrory Corporation common stock owned at January 31, 1962 | $21.71 | | | | |
| SHARES OF COMMON STOCK OUTSTANDING (3) | 2,053,107 | 1,800,936 | 1,531,841 | 1,497,543 | 1,431,846 |

NOTES: (1) Includes the following subsidiaries acquired in transactions accounted for as poolings of interests—Cellu-Craft Products Corporation and subsidiaries, Heller Bros. Packing Co., Hi-Line Co. Inc. and affiliates, and Merry Mites, Inc. and affiliates.

(2) Includes special credits net of income tax, of $106,206 in 1957; $301,169 in 1958; $281,541 in 1959; and $8,603,689 in 1961.

(3) Based upon shares outstanding at the end of each period, after applying retroactively the two-for-one split of the common stock in January 1957, 5% stock dividends in May 1957 and March 1959, and three-for-two split in May 1960, and the issuance of common stock during the year ended Jan. 31, 1962 in connection with transactions mentioned in Note 1 above.

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# McCRORY
CORPORATION

1961 Annual Report

**Contents**

# McCRORY CORPORATION

## BOARD OF DIRECTORS

B. Gerald Cantor
Patrick J. Clifford
**Roy F. Coppedge
Harold S. Divine
J. Neal Dow
Milton Heller
N. Baxter Jackson
Bernard Kobrovsky
*Harold M. Lane
Harold M. Lane, Jr.
*Leonard C. Lane
*William L. Less
*James Lutz
Graham Magee
Alfred T. Manacher
*Frank J. Manheim
Edward L. Marks
Donald L. Miller
*Bert R. Prall
Charles C. Renshaw
*Meshulam Riklis
Julius Sanditen
David R. Schoales
*Leonard Spangenberg
Melvin Unterman
*Harry H. Wachtel
*Jacob S. Weinstein
John A. Wells

**Member of Executive Committee*
***Chairman Emeritus*

## OPERATING EXECUTIVE COMMITTEE

James Lutz, *Chairman*

Roy F. Coppedge
J. Neal Dow
Harold M. Lane
Graham Magee
Edward L. Marks
Peter F. Pantlin, *Secretary*
Meshulam Riklis
Julius Sanditen
Herbert D. Silver
Leonard Spangenberg
Harry J. Tofel
Harry H. Wachtel

## OFFICERS

| | |
|---|---|
| Meshulam Riklis | *Chairman of Board of Directors* |
| James Lutz | *President* |
| Harry H. Wachtel | *Vice Chairman of Board of Directors & Executive Vice President* |
| J. Neal Dow | *Senior Vice President & President of McCrory-McLellan-Green* |
| Herbert D. Silver | *Financial Vice President & Treasurer* |
| Leonard Spangenberg | *Chairman of Executive Committee* |
| Harold M. Lane | *Chairman of Lerner Stores Corporation* |
| Bert R. Prall | *Vice President & President of McCrory Credit Corporation* |
| Julius Sanditen | *Vice President & President of Oklahoma Tire & Supply* |
| Edward L. Marks | *Vice President & President of National Shirt Shops* |
| Harold M. Lane, Jr. | *Vice President* |
| Graham Magee | *Vice President* |
| Harry J. Tofel | *Vice President* |
| George A. Greenberg | *Vice President* |
| T. C. Lawrence | *Secretary* |
| Stanley I. Rosenfeld | *Comptroller* |

## COMMITTEE CHAIRMEN

| | |
|---|---|
| William L. Less | *Chairman of Finance Committee* |
| Jacob S. Weinstein | *Chairman of Acquisition Committee* |
| Charles C. Renshaw<br>Bernard Kobrovsky | *Co-Chairmen of Committee on Salary and Compensation* |
| Leonard C. Lane | *Chairman of Stock Option Committee* |

## AUDITORS

Arthur Andersen & Co., New York, N. Y.

## GENERAL COUNSEL

Wachtel & Michaelson, New York, N. Y.

## TRANSFER AGENTS

| | |
|---|---|
| Common Stock<br>5½% Preference B Stock<br>4½% Preference B Stock | Chemical Bank New York Trust Co. and<br>First National Bank of Chicago |
| 3½% Preferred Stock<br>$6 Preference Stock | Morgan Guaranty Trust Co. of New York and<br>First National Bank of Chicago |

## REGISTRARS

| | |
|---|---|
| Common Stock<br>5½% Preference B Stock | Morgan Guaranty Trust Co. of New York and<br>Continental Illinois National Bank and Trust Co. of Chicago |
| 4½% Preference B Stock | The Chase Manhattan Bank and<br>Continental Illinois National Bank and Trust Co. of Chicago |
| 3½% Preferred Stock<br>$6 Preference Stock | Chemical Bank New York Trust Co. and<br>Continental Illinois National Bank and Trust Co. of Chicago |

## EXECUTIVE OFFICES

711 Fifth Avenue, New York 22, N. Y.

*The Annual Meeting of Stockholders will be held at the office of the Corporation, Bank of Wilmington Building, Corner 9th & Market Streets, Wilmington, Delaware, on Tuesday, June 12, 1962, at 12 o'clock noon, Wilmington time. Each stockholder entitled to vote thereat will receive by mail a formal notice of meeting, together with proxy statement and form of proxy, on or about May 14, 1962, at which time proxies will be solicited by order of the Board of Directors.*

# TO OUR STOCKHOLDERS:

We are pleased to present this report of your company's activities for the year ended December 31, 1961. The report should be evaluated in light of the objective announced two years ago to establish a progressive, diversified merchandising organization.

From the early part of 1960 into mid-1961, the board of directors and your management were actively engaged in an acquisition program of variety stores (McCrory-McLellan-Green); hard goods stores (Oklahoma Tire & Supply and Economy Auto Stores); men's wear stores (National Shirt Shops) and ladies' and children's apparel stores (Lerner Shops). This entire program was consummated in a period of little more than 18 months and involved various methods of acquisition.

From mid-1961 to the present, and for 1962, our program has called for consolidation and expansion of existing entities and for the beginning of integration under one roof of all our merchandising units in the "McCrory Village" concept.

A key prerequisite to the success of the present program was the development of operating management. In late 1960 new top management came to McCrory. During 1961, we reinforced this management structure by selecting men from our divisions and adding men with specialized abilities in merchandising, administration, real estate, buying and sales promotion. Today this management force is hard at work providing the talent and strength to accomplish the formidable tasks outlined above. We are confident that the extraordinary results of the first program will be equaled, if not surpassed, by management in the current year.

The significant events of 1961 can be classified and reviewed under five headings: (1) the consolidation and integration of the H. L. Green Company into the new McCrory-McLellan-Green Stores Division of McCrory Corporation; (2) the acquisition of the outstanding stock of Lerner Stores Corporation and Economy Auto Stores, Inc.; (3) the continued development and solidification of aggressive management through appointments and promotions; (4) the institution of merchandising and operational innovations and (5) the formation of the McCrory Credit Corporation.

### H. L. Green

The operational consolidation of H. L. Green with McCrory followed the merger of the two companies in June 1961. Shareholders of Green received 4½ per cent Preference B shares and warrants in the merger. Some months prior to this move, Green had sold 51 stores of its Mobile Division and 86 stores that formerly comprised its Metropolitan Stores Division in Canada. With the merger officially approved by both the Green and McCrory stockholders, your company began the process of absorbing the remaining Green stores into the McCrory-McLellan structure. These stores became part of the enlarged McCrory-McLellan-Green Stores Division of McCrory Corporation under the direction of its new president, J. Neal Dow, who joined the company in 1960.

As president of the McCrory-McLellan-Green Stores Division, one of Mr. Dow's important tasks during 1961 was the consolidation of the separate home and field organizations operated by McCrory-McLellan and Green. This was a formidable job involving the coordination of offices and personnel and the shifting of executives of both companies to new posts under the realigned operation. The field organizations were decentralized by the establishment of a regional management group, and a retail committee including regional managers was set up to determine merchandising and administrative policy and to provide a better line of communication between the home office and the field. This program, which will be further implemented during the current year, has already resulted in a stronger, more closely knit operating group and major improvement in the operation of the business.

Simultaneously, a number of the former Mobile Division stores were converted into Gulf Mills Discount Department Stores. These are 8,000 to 12,000 square foot units that specialize in merchandising soft goods lines. Eight Gulf Mills Discount Department Stores are now operating as part of our McCrory-McLellan-Green division. Based upon the success of these stores, our plans call for an increase in this type of discount unit during 1962.

### Lerner Stores

The acquisition of a majority of the outstanding common stock of Lerner Stores Corporation and Economy Auto Stores, Inc., last year added diversification to your company in two major areas of retailing—the women's and children's apparel field and the hard goods field.

McCrory now owns more than 90 per cent of the outstanding common shares of Lerner Stores Corporation. Lerner shareholders were paid, at their choice, either (a) $33 in cash or (b) a $40 5½ per cent debenture due August 15, 1976, and warrants to purchase McCrory common stock at $20 per share. This offering was completed in September 1961.

Lerner currently operates 310 stores in 39 states, the District of Columbia and Puerto Rico. The company also operates three Lanes fashion discount shops in New York City and Nassau County, Long Island, with a total of 262,000 square feet of selling space. Lerner has built a 40-year reputation as one of the country's most astute merchandisers of popular priced women's and children's wear. Its acquisition adds to McCrory not only an outstanding national chain but proven management headed by Harold M. Lane.

## Economy Auto Stores

A significant acquisition during the latter part of 1961 was the purchase of Economy Auto Stores, Inc., via a cash tender for stock. Economy Auto is a chain of 32 company owned and 73 franchised stores in Georgia, Alabama, Florida, North Carolina, South Carolina and Tennessee. These stores merchandise a complete line of hard goods including furniture and appliances, auto accessories, toys, sporting goods, hardware and paints.

The acquisition of Economy Auto Stores provides us with a springboard for the expansion of our existing hard goods operations into the important southeast market. The hard goods operations will be enhanced by the integration of the merchandising, buying and management structure of Economy Auto with our Oklahoma Tire & Supply (OTASCO) Division, which distributes similar lines of merchandise through retail units in the Southwest and Midwest. We consider the hard goods field a growing retail area and an important element in our future plans.

## Management

Much of the credit for the strides taken by your company during recent months must go to its newly developed management team. This was a period that saw a number of key appointments made, resulting in a consolidation of our management base in line with McCrory's expanded operations. J. Neal Dow, as senior vice president and assistant to the president, was elected a director of your company and assumed the added duties of the presidency of the McCrory-McLellan-Green Stores Division. Also elected to new executive positions were: Bert R. Prall, vice president of McCrory and president of McCrory Credit Corporation; Harold M. Lane, Jr., vice president; Harry J. Tofel, vice president and assistant to the president; Graham Magee, vice president; Miles Ellis, vice president of McCrory-McLellan-Green, and George Schwartz, vice president of McCrory-McLellan-Green and merchandising assistant to the president of McCrory Corporation.

Mr. Prall was formerly president and board chairman of H. L. Green and chairman of the Chicago District of the Federal Reserve Bank. Mr. Lane is executive vice president and a director of Lerner Stores Corporation. Mr. Tofel is a veteran of 35 years in merchandising and was formerly vice president, general merchandising manager and a director of H. L. Green. He will be primarily responsible for the development of our "McCrory Village" and "Shopmobile" programs. Mr. Magee has been associated with Lerner Stores for the past 33 years as a vice president and director. A leading real estate man, he will be coordinator of all McCrory Corporation real estate activities. Mr. Ellis, formerly assistant to the president of Butler Brothers, is now in charge of our Mobile Division, with headquarters in Mobile, Ala. Mr. Schwartz, formerly an executive with Sears, Roebuck & Co., will be in charge of establishing new buying policies and techniques and of advising and aiding our advertising and sales promotion departments.

We believe these appointments effectively strengthen our management and represent a forward step in the development of an executive force capable of molding our various corporate divisions into a successful, diversified retailing entity.

## Credit Corporation

The organization of McCrory Credit Corporation under the presidency of Bert R. Prall took place in December 1961, too late to significantly affect 1961 results. This wholly owned subsidiary, centralizing and coordinating the growing credit programs of the company's various divisions, will contribute not only to our efficiency but also to our earnings.

## Merchandising

The philosophy of McCrory Corporation is to provide our customers with quality merchandise at reasonable prices in conveniently located stores that offer a wholesome atmosphere in which to shop and work. We consider this philosophy basic to our future as a company. In addition, management is dedicated to exploring new and creative avenues of merchandising and operating potential and to building an employee corps whose future is securely linked to the growth and development of the company. An employee who has a stake in the success of his company is invariably a more efficient, productive and loyal worker. McCrory Corporation now has more than 1,375 employees who participate in our stock option and stock purchase incentive programs.

The merchandising and operational innovations introduced during the past year in keeping with this philosophy are too numerous to delineate here in detail. However, some of the highlights of our achievements in these areas were the development of a specification buying and merchandising program under the "McCrory Star Value" line; the introduction of a private label and packaging program; the establishment of the McCrory Laboratories for testing soft goods items sold in our stores; the launching of the McCrory "Shopmobile," a modern, motorized version of the old-fashioned peddler's cart which is currently touring the Florida area promoting the McCrory name and selling McCrory merchandise.

A signal event of 1961 was the completion of plans for our first full-sized "McCrory Village" in Poughkeepsie, N. Y. The McCrory Village is an integrated complex of various McCrory Corporation retailing entities operating as a unit under one roof. The McCrory Village in Poughkeepsie will be a 60,000 square foot center that will include a McCrory variety store, a Lerner women's and children's apparel shop, a National Shirt Shops men's furnishings unit and an OTASCO sporting goods and appliance unit. We expect to open this first Village in the latter part of 1962. Our Stillwater, Okla., store, a forerunner of the Poughkeepsie project, is a prototype of our future McCrory

"Junior Villages" combining two or more McCrory divisions under one roof. The Stillwater store includes a McLellan variety store and an OTASCO hard goods unit. The results of this Junior Village operation have been most gratifying.

Another noteworthy event of the past year was the signing of a lease for the construction of a 68,000 square foot McCrory variety unit in the new 890,000 square foot Walt Whitman Shopping Center in Huntington, Long Island. When completed later this year, the store will be one of the largest in the McCrory-McLellan-Green division.

In late 1961 we completed a master plan for a completely new distribution and warehousing system to supply the McCrory-McLellan-Green stores. The plan was put into effect during the first quarter of 1962 and will have its full impact starting with 1963. It calls for the erection of three warehouses in Pennsylvania, Georgia and Texas containing a total of more than 1,300,000 square feet, each using integrated data processing to control inventory and to facilitate the handling of merchandise.

The coordination of management policy on the merchandising and operational level was paralleled in 1961 by a similar coordination and consolidation on the administrative level. The results of these new administrative policies were evident in three important areas: taxation, insurance and real estate. We have created a single tax department to handle and process all federal, state and local tax returns of all our divisions. Individual tax departments in each of the subsidiaries were eliminated and key personnel shifted to the new central body at a substantial saving in work load and overhead.

We have also established centralized control of all insurance functions under a single department, and we have analyzed the insurance needs of our retail divisions with an eye toward providing overall coverage for them under a single broad policy. By combining our insurance departments, we have been able to effect important economies in administration, improve control and substantially reduce our costs.

Under Mr. Magee's direction, our real estate activities are undergoing a thorough revamping. All construction and leasing activity related to the real estate held by McCrory Corporation and its subsidiaries will be coordinated under a central authority. This centralization will assure us of a unified program for all real estate functions—including leasing, store design and store construction.

The current year holds out the promise of important new strides in the growth of McCrory Corporation. The integration of the various aspects of our operation will continue at an accelerated pace accompanied by the further expansion of our divisions. Last year McCrory Corporation as a whole opened 44 new units and remodeled an additional 105 stores in a program aimed at bringing all divisional retail units up to modern competitive standards. As of December 31, 1961, the company had a total of 1287 retail stores in operation, plus an additional 250 franchised stores. Our plans for the current year envision the inauguration of 68 new stores and the modernization of 100 units in all divisions (exclusive of our McCrory Villages and Gulf Mills Discount Department Stores).

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Since the last Annual Meeting, there have been numerous additions to our board of directors and executive committee. Our board was augmented by the election of (in order of date of election): Harold M. Lane, chairman of Lerner Stores Corporation; Harold M. Lane, Jr., executive vice president of Lerner Stores Corporation; Frank J. Manheim, partner of Lehman Brothers; Bert R. Prall; John A. Wells, a senior partner in the law firm of Royall, Koegel & Rogers; O. Paul Decker, president and director of the National Boulevard Bank of Chicago, who, we regret to announce, has since passed away; Harold S. Divine, president of Divine & Fishman, Inc.; J. Neal Dow; Graham Magee, vice president of Lerner Stores Corporation.

Messrs. Lane, Sr., Manheim and Prall were named to our executive committee. Harry H. Wachtel was named vice chairman of the board in addition to his post as executive vice president.

In recognition of more than 40 years of outstanding service to the company, the board of directors named Roy F. Coppedge as chairman emeritus.

We wish to take this opportunity to express our appreciation to the more than 37,000 employees of McCrory Corporation and its subsidiaries, to our officers and to our directors for their exemplary team performance during 1961. To our stockholders we extend our thanks for their confidence and pledge our best efforts toward making 1962 a year in which the growing influence of McCrory Corporation will be even more deeply felt on the national retailing scene. We look forward to the challenge of tomorrow confident that the efforts of yesterday and today will see profitable fruition.

Respectfully submitted,

M. Rikl James Lutz

MESHULAM RIKLIS
*Chairman of the Board*

JAMES LUTZ
*President*

# McCRORY CORPORATION

## FINANCIAL REVIEW

### SALES

The consolidated income statement of the McCrory Corporation for the year ended December 31, 1961, indicates total sales of $409,234,759. In that connection, sales of the Lerner Stores Corporation prior to September 1, 1961, are excluded and sales of the Economy Auto Stores prior to November 1, 1961, are excluded since these were the dates of acquisition by McCrory.

A statistical compilation (if each of the operating entities were accumulated on a twelve-month basis) would result in combined net sales of approximately $540,000,000 for 1961.

### NET INCOME

The net income after taxes for 1961 amounted to $8,369,119 including special items of $3,016,589. Earnings per common share after payment of dividends on preferred and preference stock were $1.25 per share on 5,612,103 shares outstanding as of December 31, 1961.

Dividends paid on common shares totaled $4,902,097 and on preferred and preference shares $1,349,585.

### SHAREHOLDERS' EQUITY

The shareholders' equity on December 31, 1961, totaled $132,396,324 compared with $100,992,762 on December 31, 1960, an increase of $31,403,562. The net common stock equity was $104,308,124 or $18.59 per share on 5,612,103 shares outstanding on December 31, 1961, compared with $15.25 per share on 5,223,059 shares outstanding as of December 31, 1960. During 1961, the number of shares outstanding increased by 389,044 shares, with the increase accountable for the most part from the conversion of 5½ per cent Preference B stock and 3½ per cent Preferred stock during the last months of 1961.

### FINANCIAL CONDITION

Cash amounted to $44,353,347 and the total current assets to $158,425,138 on December 31, 1961. The company's working capital (excess of current assets over current liabilities) was $94,844,234, a ratio of 2.5 to 1.

### PROPERTY INVESTMENT

On December 31, 1961, the net investment in stores and other operating facilities amounted to $87,991,733 after setting aside total depreciation reserves of $71,954,897.

Depreciation and amortization charged against earnings during 1961 amounted to $7,234,649 (on a full twelve-month basis for all entities the total charge approximated $9,000,000).

### GENERAL

No meaningful comparison with previous results of operations is available since significant disposals, acquisitions and mergers were effectively accomplished at various times throughout the year.

Other sections of this report fully describe financial events of the year. For detailed descriptions of shares outstanding, long-term debt and other liabilities and assets, we ask you to refer to the accompanying financial statements.

# McCRORY-McLELLAN-GREEN

Each new store under the McCrory, McLellan or Green name has been designed to fit its specific location and market area.


New store openings are accompanied by special merchandise promotions.



## OFFICERS

| | |
|---|---|
| J. Neal Dow | *President* |
| L. C. Shockley | *Senior Vice President* |
| T. C. Lawrence | *Financial Vice President & Treasurer* |
| James F. Barnard | *Vice President* |
| C. F. Carter, Jr. | *Vice President* |
| Miles Ellis | *Vice President* |
| J. F. King | *Vice President* |
| R. O. Kristiansen | *Vice President* |
| Bernard Oringer | *Vice President* |
| George Schwartz | *Vice President* |
| E. C. Weyburn | *Vice President* |
| C. R. Purdon | *Comptroller* |

Office: 31-39 West 34th Street, New York, N. Y.

Warehouses: New York, N. Y. – Brooklyn, N. Y. – Huntingdon, Pa.
York, Pa. – Chicago, Ill. – Oklahoma City, Okla.

# STORES DIVISION

With the integration of the former H. L. Green stores into the McCrory-McLellan-Green Stores Division, your company now operates a total of 600 variety stores in 38 states and the District of Columbia plus 97 stores comprising the Mobile and Cassels Divisions.

During 1961 some of our unprofitable stores were closed where lease arrangements were favorable for us to do so. We opened 11 new stores with a combined footage of 194,000 square feet, giving us an increase of 100,000 square feet over those stores that were closed. Eighty-seven stores were modernized in varying degrees. Modern selling fixtures and display counters were created in our own design and construction department for installation in the modernized stores, increasing display space by over 30 per cent for additional merchandise with greater sales exposure.


Exciting new lines of merchandise have been added, such as costume jewelry.

Other highlights of 1961 were the following:

- The integration of the H. L. Green Company into the McCrory-McLellan-Green Stores Division.
- The appointment of J. Neal Dow to the presidency of the newly formed McCrory-McLellan-Green division.
- The decentralization and realignment of our field management by appointing five regional managers who report directly to the president. These men are:

| | *Region* | *Headquarters* |
|---|---|---|
| N. P. McLuckie | Northeast | Newark, N. J. |
| C. S. Marker | East Central | Baltimore, Md. |
| L. J. Matowitz | Midwest | Lansing, Mich. |
| F. C. Gardner | Southeast | Atlanta, Ga. |
| H. G. Kolb | West | Dallas, Tex. |

- The introduction of private label brand merchandise and the introduction of our "Star Value" line of outstanding top grade products bought under rigidly controlled quality inspection.
- The appointment of additional top executives for the further implementation and development of merchandise and operating procedures.
- The expansion of customer credit operations at present covering 34 stores.
- The conversion of unprofitable stores of our Mobile Division into Gulf Mills Discount Department Stores.
- The introduction of the Shopmobile.

Apparel departments have been continually upgraded in quality and widened in scope.

In preparation for the McCrory Village program scheduled to get underway in 1962, your company last year initiated a pilot project in retail consolidation at its store in Stillwater, Okla. The project, which combines a variety store and an automotive and appliance store, has provided us with valuable insights into the operation of future McCrory Villages. Your company plans to open several villages during 1962 combining diverse retail units from within the McCrory framework under one roof.

During the past year, 11 new stores were opened and 87 existing stores were remodeled.

# LERNER SHOPS

**OFFICERS**

HAROLD M. LANE
*Chairman of Board of Directors*

STANLEY H. KUNSBERG
*President*

HAROLD M. LANE, JR.
*Executive Vice President*

GRAHAM MAGEE
*Senior Vice President & Secretary*

HAROLD F. MILLER
*Senior Vice President*

D. JOHN PALLADINO
*Vice President & Treasurer*

BENJAMIN J. TIMONER
*Vice President*

MILTON SEEGAL
*Vice President*

NATHAN B. EPSTEIN
*Vice President*

ROBERT L. KRILL
*Vice President*

HAROLD GREENE
*Vice President*

EUGENE SHAW
*Vice President*

MELVIN J. REDMOND
*Vice President*

SAMUEL S. BRAND
*Vice President*

DAVID D. GREENWALD
*Vice President*

KARL MARGOLIES
*Vice President*

OFFICE: 354 PARK AVENUE SOUTH, NEW YORK, N. Y.

Lerner Shops, a national retailer of women's and children's apparel, consists of 310 retail stores in 39 states, the District of Columbia and Puerto Rico. The company's main office is in New York, and it operates five regional distribution centers in Atlanta, Jacksonville, Chicago, Denver and Los Angeles. During 1961, 11 new stores were opened, including a second unit in Puerto Rico, and a number of existing stores were remodeled and enlarged.

In the past 40 years, Lerner Shops has become recognized as one of the country's most successful merchandisers of popular priced women's and children's wear. Over these years, Lerner has developed a strong organization of buyers and merchandisers with unrivaled experience in the popular priced soft goods apparel field. They have proved their ability to select lines of merchandise that appeal to a mass market over a national area.

The company also expanded its activities into the discount field with the opening of three large Lanes stores in Manhattan and Nassau County, N. Y. These Lanes units have successfully formulated a concept of specialty fashion merchandising that accents high style for men, women and children. In addition to capitalizing on the company's know-how in the field of fashion they have developed a strong position in home furnishings, radio, television, appliances, photographic supplies and a complete line of domestics, curtains and drapes, all at prices within the range of the average consumer. The Lanes units operate autonomously with their own buying and merchandising staffs.

The company has a fully established credit system in operation in every one of its market areas with the exception of New York and last year opened central credit offices in Washington, D. C., and Los Angeles. Credit is planned for the New York stores before the end of 1962.

Also during the past year a new building, equipped with the latest automatic facilities for merchandise handling, was erected in Atlanta, Ga. It contains approximately 142,000 square feet and replaces a building of 51,600 square feet which had become inadequate to handle the company's expanding operations in the South and Southwest.

Lerner Shops has won wide public recognition for quality merchandise in popularly priced women's and children's apparel.


High style has been increasingly accented as the buying public's taste has grown more discriminating.

# NATIONAL SHIRT SHOPS DIVISION


Modern, well lighted stores with complete lines of men's and boy's wear offer top values from coast to coast.

### OFFICERS

| | |
|---|---|
| Edward L. Marks | *President* |
| H. S. Apter | *Financial Vice President & Treasurer* |
| Phillip Blume | *Vice President in Charge of Merchandising* |
| F. J. Tyrrell | *Secretary* |

Office: 19 West 34th Street, New York, N. Y.

Continuing our expansion program begun in 1960, National Shirt Shops last year opened six new units for a total of 154 operating in 27 states and the District of Columbia. The division thus consolidated its position as the country's leading men's furnisher and the only national chain in the men's wear field.

National Shirt currently features a complete line of popular priced men's sportswear including suits, sweaters, slacks, jackets, sport coats, shirts, ties and haberdashery accessories. In late 1960, the division inaugurated its first boys' wear departments in selected units in Long Island, N. Y.; Louisville, Ky.; St. Louis, Mo., and Cincinnati, Ohio. These departments, which accent a complete boys' wear line in the same high style as men's wear, have proved so popular that last year they were extended to 28 of the division's outlets. These departments will be extended to additional units during the current year.

During 1961, National Shirt Shops celebrated its 50th anniversary as a men's clothier with special sales and promotions on a chain-wide basis. The results of this Golden Jubilee were most encouraging.

The National Shirt Shops Division continues to receive widespread consumer acceptance in all areas throughout the country. With the company's excellent store and regional management organization, further growth can be anticipated for 1962.

Merchandise on display offers a superb choice of style and color.

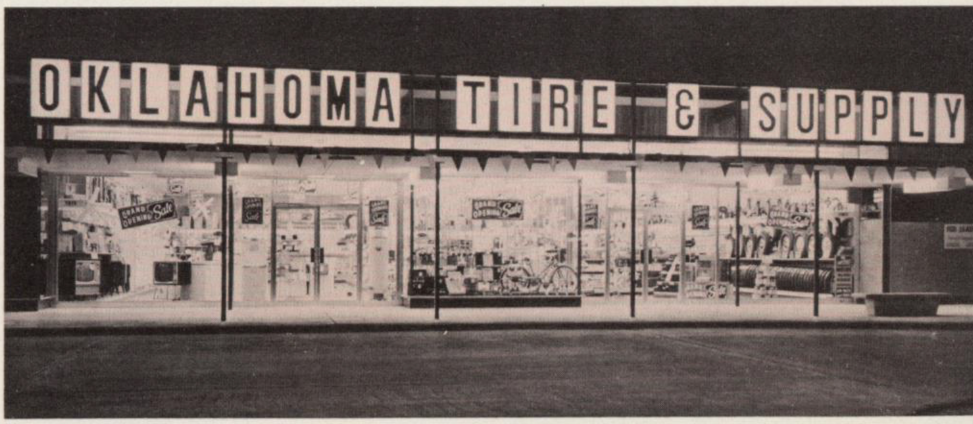
# AUTOMOTIVE and MAJOR

Since the acquisition last year of the outstanding stock of Economy Auto Stores, Inc., your company has pursued the task of consolidating the operations of Economy Auto and Oklahoma Tire & Supply (OTASCO) into a new Automotive and Major Appliance Division. In this way, McCrory believes it can best realize the benefits and economies of an integrated buying, merchandising and management program in the hard goods field.

With the additional capital provided by McCrory Corporation, OTASCO was able to expand its profitable operations during 1961 with the opening of seven new company-owned stores and five associated dealer stores. OTASCO is now comprised of 94 company-operated units and 177 franchised associated stores in five midwestern and southwestern states.

OTASCO specializes in the sale of a complete line of auto supplies, sporting goods, appliances, housewares and other hard goods—a total of more than 6,000 separate items. During 1961, OTASCO concentrated its efforts on the modernization of older stores and the opening of new units.

Economy Auto Stores has been a successful retail merchandiser of hard goods since its establishment in 1934. The company, acquired by McCrory during 1961, currently consists of 32 company-owned stores and 73 associated dealer stores in six southeastern states. The company's growth through the years has been backed by strong local advertising and close identification with the southern communities in which it operates.




OTASCO continues to grow, adding seven new stores and five associated dealer stores during the year.

Expanded lines of merchandise are offered including home and automotive supplies, toys, hobby and garden supplies and major appliances.

### OKLAHOMA TIRE & SUPPLY

### OFFICERS

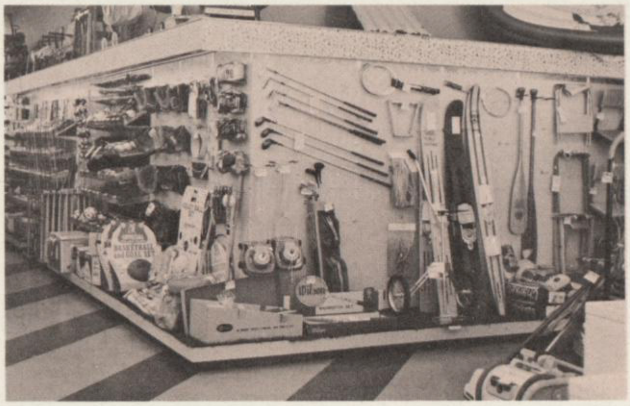
| | |
|---|---|
| Maurice Sanditen | *Chairman* |
| Julius Sanditen | *President* |
| Ely G. Sanditen | *Senior Vice President* |
| Abe Brand | *Vice President* |
| Samuel H. Minsky | *Secretary* |
| Herman Sanditen | *Treasurer* |

Office: 6901 East Pine Street, Tulsa, Okla.

Warehouses: Tulsa, Okla. – Little Rock, Ark.

# APPLIANCE DIVISION

The coordination of merchandising and buying of Economy Auto Stores and OTASCO is enhancing our automotive and major appliance operation.

A complete line of sporting goods complements the other lines of auto accessories, radio and television sets, appliances, toys, furniture, hardware and paints.

**ECONOMY AUTO STORES**

**OFFICERS**

ROGER E. HILL . . . *President & General Manager*

CHAS. L. PENNEY . . . . . . *Vice President & Director of Purchases*

R. W. GUNNIN . . . . . . . *Vice President & Director of Administrative Services*

H. P. JOLLY . . . . . . . . *Vice President & Director of Operations Development*

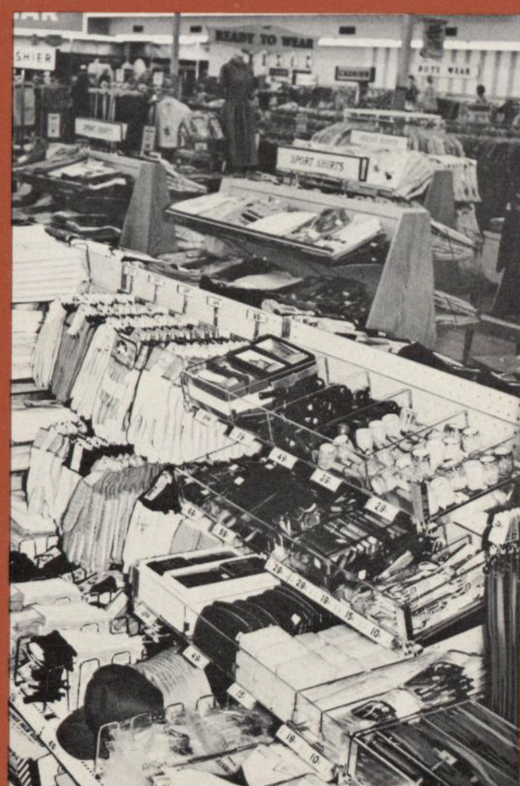
W. W. PENN . . . . . . *Treasurer & Director of Finance and Accounting*

OFFICE: 1130 BANKHEAD AVENUE, N.W., ATLANTA, GA.



**Interiors show the newest successful techniques in store design created and developed by McCrory's own staff of designers. The open, self-selling displays are an effective invitation to shop and buy.**






Everything is within arm's reach of the customer. Counter and aisle design makes browsing and inspection of merchandise easy and pleasant. Products ranging from hosiery to hobby kits to whole furniture sets are shown in use.



## CONSOLIDATED BALANCE SHEET DECEMBER 31, 1961 (NOTE 1)

### ASSETS

| | | |
|---|---|---|
| CURRENT ASSETS: | | |
| Cash | | $ 44,353,347 |
| Accounts receivable— | | |
| Customers' accounts | $ 13,675,685 | |
| Equity in installment accounts sold (the uncollected balances of which amount to $12,259,000) | 1,688,882 | |
| Other | 1,613,638 | 16,978,205 |
| Merchandise inventories (Note 6) | | 95,180,292 |
| Prepaid insurance, taxes, rents, store supplies, etc. | | 1,913,294 |
| Total current assets | | $158,425,138 |
| FIXED ASSETS, at cost: | | |
| Store properties and warehouses | $ 23,005,356 | |
| Furniture and fixtures and improvements to leased property | 136,941,274 | |
| | $159,946,630 | |
| Less—Accumulated depreciation and amortization | 71,954,897 | 87,991,733 |
| OTHER ASSETS: | | |
| Debenture discount, less amortization of $634,687 (Note 3) | $ 10,764,414 | |
| Goodwill, less amortization of $174,236 | 1,178,393 | |
| Excess of purchase cost of 1,180,820 shares (90% ownership) of Lerner Stores Corporation common stock over underlying net equity at date of acquisition, not at this date assigned to specific assets acquired (Note 3) | 16,328,775 | |
| Deferred charges, mortgages and sundry receivables | 1,417,040 | 29,688,622 |
| | | $276,105,493 |

*The accompanying notes to consolidated financial*

## LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Notes payable to banks | | $ 6,500,000 |
| Current maturities of long-term debt (Note 5) | | 2,957,684 |
| Accounts payable | | 30,965,068 |
| Accrued expenses and sundry liabilities | | 17,745,739 |
| Accrued Federal taxes on income | | 5,412,413 |
| Total current liabilities | | $ 63,580,904 |
| LONG-TERM DEBT, less current maturities (Note 5) | | 69,680,099 |
| DEFERRED ITEMS: | | |
| Deferred Federal income taxes | $ 3,211,000 | |
| Other | 931,937 | 4,142,937 |
| MINORITY INTEREST—in preferred ($2,608,800) and common stock of Lerner Stores Corporation | | 6,305,229 |
| SHAREHOLDERS' EQUITY (Notes 1, 2, 7 and 8): | | |
| Preferred stock, cumulative, $100 par value, series issue, authorized 79,679 shares— | | |
| 3½% series cumulative convertible, authorized 59,679 shares, issued 28,962 shares | $ 2,896,200 | |
| $6.00 cumulative convertible preference stock, $100 par value—95,695 shares authorized and outstanding | 9,569,500 | |
| Preference B stock, $100 par value, series issue, authorized 246,176 shares— | | |
| 5½% series, cumulative (subordinated and convertible) authorized 54,676 shares, issued 14,568 shares | 1,456,800 | |
| 4½% series, cumulative (subordinated and convertible) authorized 145,544 shares, issued and outstanding 141,657 shares | 14,165,700 | |
| Common stock, $.50 par value—authorized 15,000,000 shares, issued 5,837,877 | 2,918,938 | |
| Capital surplus (Note 7) | 36,169,606 | |
| Earned surplus (Note 7) | 68,510,275 | |
| | $135,687,019 | |
| Less—225,774 common shares of treasury stock, at cost | 3,290,695 | 132,396,324 |
| | | $276,105,493 |

*statements are an integral part of the above balance sheet.*

## STATEMENT OF CONSOLIDATED NET INCOME

FOR THE YEAR ENDED DECEMBER 31, 1961 (NOTE 1)

| | | |
|---|---|---|
| NET SALES—merchandise, restaurant and concession | | $409,234,759 |
| COST OF GOODS SOLD, buying and occupancy expenses (net of service charge income), including depreciation and amortization of $7,234,649 | $296,341,506 | |
| General and administrative expenses | 100,032,642 | 396,374,148 |
| OPERATING PROFIT | | $ 12,860,611 |
| Other expense (net): | | |
| Interest and debenture discount | $3,909,737 | |
| Less—investment income and miscellaneous income (net) | 799,115 | 3,110,622 |
| PROFIT BEFORE PROVISION FOR INCOME TAX | | $ 9,749,989 |
| Provision for Federal income taxes | | 4,015,000 |
| NET INCOME before elimination of minority stockholders' equity in earnings of Lerner Stores Corporation | | $ 5,734,989 |
| Minority stockholders' equity in earnings of Lerner Stores Corporation | | 382,459 |
| NET INCOME applicable to shareholders of McCrory Corporation (Note 1) | | $ 5,352,530 |
| Special items (Note 11) | | 3,016,589 |
| NET INCOME AND SPECIAL ITEMS | | $ 8,369,119 |

*The accompanying notes to consolidated financial statements are an integral part of the above statement.*

## STATEMENTS OF CONSOLIDATED SURPLUS

FOR THE YEAR ENDED DECEMBER 31, 1961

| | EARNED SURPLUS | CAPITAL SURPLUS |
|---|---|---|
| BALANCE, DECEMBER 31, 1960 | $58,282,109 | $20,850,557 |
| ADD (DEDUCT), Transactions incident to the "pooling" of H. L. Green Company, Inc. with the Company (Note 2) | 8,126,380 | ( 405,351) |
| BALANCE, beginning of period—as adjusted | $66,408,489 | $20,445,206 |
| ADD (DEDUCT): | | |
| Net income and special items for the year ended December 31, 1961 (Note 1) | 8,369,119 | — |
| | $74,777,608 | $20,445,206 |
| Dividends paid during year: | | |
| Common stock ($.90 per share) | ($ 4,902,097) | $ — |
| 3½% series, cumulative convertible preferred stock ($3.50 per share) | ( 140,986) | — |
| $6 cumulative convertible preference stock ($6.00 per share) | ( 574,170) | — |
| 5½% series, cumulative (subordinated and convertible) preference B stock ($5.50 per share) | ( 206,087) | — |
| 4½% series, cumulative (subordinated and convertible) preference B stock ($2.625 per share) | ( 374,988) | — |
| Dividends on preferred stock of Lerner Stores Corporation | ( 53,354) | — |
| | ($ 6,251,682) | $ — |
| Surplus arising from issuance of 1,585,274 warrants on Lerner acquisition stated at $5.00 per warrant (Note 3) | $ — | $ 7,926,368 |
| Excess of par value of preferred and preference stock over $.50 par value of 448,928 shares of common stock upon conversion thereof | — | 7,352,136 |
| Excess of proceeds over stated value of common stock of Lerner Stores Corporation upon exercise of stock options | — | 392,198 |
| Excess of par value of 4½% cumulative preference B stock reacquired over cost thereof | — | 36,326 |
| Excess of proceeds over par value of 316 shares of common stock issued in exercise of warrants | — | 6,162 |
| Excess of cost of 7,850 shares of treasury stock issued under stock option plans over option price (Note 8) | ( 21,764) | — |
| Other | 6,113 | 11,210 |
| BALANCE, DECEMBER 31, 1961 | $68,510,275 | $36,169,606 |

*The accompanying notes to consolidated financial statements are an integral part of the above statements.*

ARTHUR ANDERSEN & CO.

80 PINE STREET
NEW YORK 5

To the Board of Directors of

McCrory Corporation:

We have examined the consolidated balance sheet of McCrory Corporation (a Delaware corporation) and subsidiary companies as of December 31, 1961, and the related statements of consolidated net income and consolidated surplus for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records of the Company and its wholly-owned subsidiaries and such other auditing procedures as we considered necessary in the circumstances. The financial statements (for the four months ended December 31, 1961) of Lerner Stores Corporation, whose net assets represent approximately 31% of the total net assets included in the consolidated financial statements, were not examined by us, but we were furnished with reports of other public accountants thereon. (See Notes 1 and 3 of Notes to Consolidated Financial Statements with respect to the McCrory investment in Lerner and the Lerner earnings consolidated with those of McCrory.)

In our opinion, based upon our examination and upon the reports of other public accountants referred to above, the accompanying consolidated balance sheet and the related statements of consolidated net income and consolidated surplus present fairly the financial position of McCrory Corporation and subsidiary companies as of December 31, 1961, and the results of their operations for the year then ended, and were prepared in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Arthur Andersen & Co.

New York, N. Y.,
March 30, 1962.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## DECEMBER 31, 1961

**(1) Principles of consolidation:**

The accompanying consolidated financial statements as of December 31, 1961, include all wholly-owned subsidiaries, as well as the several businesses formerly operated as H. L. Green Company, Inc. and Economy Auto Stores, Inc., which were merged into the Company during the year. In addition, the accounts reflect the consolidation of Lerner Stores Corporation, which became a majority-owned company early in September, 1961. At December 31, 1961, McCrory owned approximately 90% of the Lerner common stock.

Income and costs and expenses of the merged, acquired and majority-owned companies are included in the accompanying statement of consolidated net income, as follows:

H. L. Green Company, Inc. —

February 1, 1961 through December 31, 1961 (Green earnings for its fiscal year ended January 31, 1961, which reflected a $552,000 loss during the month of January, were included in the amount credited to McCrory Earned Surplus in recording the June 21, 1961, merger as a "pooling of interests.")

Lerner Stores Corporation —

September 1, 1961 through December 31, 1961—McCrory equity in Lerner net income amounted to $3,532,000 (See Lerner's Consolidated Statement of Income in accompanying Lerner Stores Corporation Annual Report for information on Lerner earnings for its fiscal year ended January 31, 1962.)

Economy Auto Stores, Inc. —

November 1, 1961 (effective date of acquisition as recognized for accounting purposes) through December 31, 1961—net income of $101,000.

**(2) Transactions incident to the "pooling" of H. L. Green Company, Inc., merged into McCrory on June 21, 1961:**

Pursuant to an Agreement of Merger between McCrory and Green, as approved by their respective stockholders, Green was merged into McCrory on June 21, 1961. Holders of 726,933 shares of Green common stock received for each Green share one-fifth of a share of a new series of McCrory 4½% cumulative preference B stock ($100 par value) plus warrants to purchase, through March 15, 1976, one and one-half shares of McCrory common stock at the price of $20 per share. The Green merger has been accounted for as a "pooling of interests", and on the merger date, the assets and liabilities of Green were recorded in the accounts of McCrory at the amounts at which they were previously carried in the accounts of Green, except that the 784 treasury shares of Green were canceled.

The balance in the surplus accounts of Green was "pooled" with the surplus of McCrory, as follows:

| | Earned Surplus | Capital Surplus |
|---|---|---|
| H. L. Green Company, Inc. balance February 1, 1961 . . . . . . . | $34,100,934 | $ 9,723,816 |
| Less—adjustments to reflect "pooling": | | |
| Cancellation of McCrory investment and Green treasury stock— | | |
| Excess of cost of McCrory investment in 734,747 shares of Green common stock over the par value thereof . . . . . . | ($16,266,559) | ($ 4,885,581) |
| Excess of underlying net equity of Green over cost of McCrory investment at December 31, 1960, credited to McCrory consolidated surplus at that date . | ( 714,079) | ( 405,351) |
| Excess of Green cost of 784 shares of treasury stock over the par value thereof . . . . . . . | ( 15,172) | ( 5,212) |
| Issuance of McCrory stock in exchange for Green stock— | | |
| Excess of par value ($100 per share) of 145,387 shares of McCrory 4½% cumulative preference B stock issued (1 for 5) in exchange for 726,933 shares of Green common stock over the par value ($1 per share) thereof . . . . . . . . . | ( 8,978,744) | ( 4,833,023) |
| | ($25,974,554) | ($10,129,167) |
| Net surplus addition (deduction) arising from the "pooling" of Green with McCrory . . . . . . . . | $ 8,126,380 | ($ 405,351) |

**(3) Acquisition of majority control of Lerner Stores Corporation:**

During 1961, McCrory acquired 1,180,820 shares (90% ownership) of Lerner Stores Corporation common stock, principally as the result of a tender offer made on August 10, 1961. A total of 123,971 of these shares was purchased for $4,186,890 in cash and 1,056,894 shares were acquired in exchange for $42,273,960 face amount of McCrory 5½% Sinking Fund Subordinated Debentures, plus Warrants to purchase through March 15, 1976, 1,585,274 shares of McCrory common stock at a price of $20 per share. In accounting for the cost of the Lerner shares acquired in exchange for McCrory securities, the McCrory Board of Directors determined that its debentures be valued at 83% of the face

amount of the debentures issued and the warrants be valued at $5 each. Accordingly, the aggregate cost of the investment in ownership of 90% of Lerner amounted to $47,405,070 (including related expenses), which exceeded the McCrory equity in underlying Lerner net assets at September 1, 1961 (approximate date of acquisition of majority control) by $16,328,775. This excess purchase cost, which has not at this date been assigned to specific assets acquired, has been recognized by the McCrory management to be similar in nature to intangibles which have not declined in value since date of acquisition. Accordingly, the McCrory management has adopted an accounting policy of not amortizing this excess purchase cost, so long as there is no recognized diminution in value of its investment in Lerner.

McCrory's equity in Lerner's net income for the four months ended December 31, 1961, is included in the accompanying statement of consolidated net income.

### (4) Acquisition of Economy Auto Stores, Inc..

Pursuant to a contract of purchase dated October 12, 1961, McCrory acquired approximately 95% of the outstanding common stock of Economy Auto Stores, Inc. On December 27, 1961, Economy was liquidated into and merged with McCrory. The aggregate cost to acquire the assets of Economy was $1,809,536 which was less than its underlying net book value.

The income of Economy for the two months ended December 31, 1961, is included in the accompanying statement of consolidated net income.

### (5) Long-term debt:

Long-term debt at December 31, 1961, including maturities due within one year consisted of the following:

| | Total | Current Maturities | Long-Term Debt |
|---|---|---|---|
| 5½% sinking fund subordinated debentures, due 1976 (a) | $40,968,960 | $ — | $40,968,960 |
| 5.235% subordinated notes due in equal annual installments to 1971 | 17,862,845 | 1,786,284 | 16,076,561 |
| 3% sinking fund debentures due 1967 (b) | 4,490,000 | — | 4,490,000 |
| Notes payable to bank (c) | 4,500,000 | 500,000 | 4,000,000 |
| Mortgages payable | 2,302,978 | 234,400 | 2,068,578 |
| 4% notes due in equal annual installments to 1967 | 1,998,000 | 333,000 | 1,665,000 |
| 3¾% notes due in equal annual installments to 1966 | 515,000 | 104,000 | 411,000 |
| | $72,637,783 | $2,957,684 | $69,680,099 |

(a) Exclusive of $1,305,000 redeemed and canceled. Sinking fund requirements in each year are as follows: 1965 and 1966—$1,024,224; 1967 through 1971—$2,048,448; 1972 through 1976—$3,277,517, with a final payment of $12,290,688 due on August 15, 1976.

(b) Exclusive of $1,110,000 in treasury. Sinking fund requirements are $600,000 in each year to 1966 and $2,600,000 at maturity.

(c) Notes payable to bank are due in equal installments of $500,000 in 1962 and 1963, with interest at 3¾% per annum, and the balance of $3,500,000 in 1964, with interest at 4% per annum.

The restrictive covenants of the indentures covering the 5½% sinking fund subordinated debentures and the 5.235% subordinated notes payable provide, among other matters, for the maintenance of specified amounts of working capital, as defined, and for certain limitations on indebtedness, as defined, which requirements at December 31, 1961, were met as follows:

(a) Consolidated working capital (as defined) which amounted to $95,595,000 must be maintained at least equal to the unpaid principal amount of the debentures outstanding, $40,968,960.

(b) Consolidated current assets were 252% of consolidated current liabilities (as defined) as compared to the 175% requirement.

(c) Consolidated indebtedness (as defined), which should not be in excess of 50 per cent of consolidated net worth, amounted to $53,604,000, which is $12,595,000 less than the maximum indebtedness allowed.

### (6) Merchandise inventories:

Merchandise inventories, stated at the lower of cost or market consist of the following:

| | | |
|---|---|---|
| Raw materials including merchandise at contractors—at specific invoice cost or replacement cost | | $ 418,592 |
| Merchandise in transit, at warehouses, and at restaurants—at cost | | 12,806,881 |
| Merchandise in stores— | | |
| at retail method | $77,389,528 | |
| at first-in, first-out cost | 4,145,399 | |
| at last-in, first-out cost | 419,892 | 81,954,819 |
| | | $95,180,292 |

### (7) Preferred and preference stock and warrants:

At December 31, 1961, there are 787,091 shares of common stock reserved for the conversion of preferred and preference stock, as follows:

| Class of Stock | Redemption Price | December 31, 1961 Conversion Rate Common Shares For Preferred or Preference | Shares of Common Stock Reserved |
|---|---|---|---|
| 3½% cumulative convertible preferred | $104 | 5 for 1 | 144,810 |
| $6 cumulative convertible preference | 115 | 3/14 for 1 | 20,506 |
| 5½% cumulative preference B | 100 | 6-2/3 for 1 | 97,120 |
| 4½% cumulative preference B | 100 | 3-19/27 for 1 | 524,655 |
| | | | 787,091 |

In addition, 2,675,358 shares of common stock are reserved for the exercise, at $20 per share, of warrants (expiring in 1976) issued in connection with the Green merger and the purchase of Lerner stock.

Pursuant to certain restrictions in connection with the authorization of preferred stock, capital and earned surplus as at December 31, 1961, in the approximate amount of $6,500,000 (including $3,462,469 restricted as the result of purchase of McCrory preference and common stock) are restricted as to future payments of dividends on the common stock or purchase or redemption of shares of its stock.

### (8) Stock option and employees' stock purchase plans:

Under the Company's restricted stock option plans adopted in 1960 for key employees and officers, 725,000 shares of common stock were reserved for the issuance of options at 95% of the

fair market value on the dates of grant, of which options for 699,950 shares have been issued (including 1,350 shares canceled in 1961) at prices ranging from $11.88 to $20.90. Options to purchase 166,950 shares at prices ranging from $13.30 to $20.90 were issued during the year, and options to purchase 4,850 shares were exercised during the year at an aggregate option price of $61,264. At December 31, 1961, options as to 693,750 shares were outstanding, of which options to purchase 111,550 shares were exercisable; 26,400 shares remained available for future option grants under the plans.

A restricted stock option plan adopted during 1961, subject to stockholders' approval, authorized the grant to key employees and officers of options to purchase 350,000 shares of common stock at 95% of the fair market value on the dates of grant. Options to purchase 25,000 shares at $18.30 a share and 232,000 shares at $21.50 a share have been issued and 93,000 shares remain available for future option grants under this plan.

Options granted are exercisable for a maximum of ten years. Options generally become exercisable to the extent of 20% each year on and after the anniversary dates of the grants with respect to the 1960 plans, and 20% each year on and after the second anniversary dates of the grants with respect to the 1961 plan. Options may not be sold, transferred, assigned, pledged or disposed of by the optionee except by will or laws of inheritance. In the event of termination of employment by resignation or death, all options will expire within varying periods up to six months from such termination.

During 1961, an option to purchase the remaining 3,000 shares granted under a 1956 Plan was exercised at an aggregate option price of $23,630.

Employee stock purchase plans adopted during 1960 (115,000 shares) and 1961 (75,000 shares subject to stockholders' approval) permit the grant of rights to purchase a total of 190,000 shares of common stock at 85% of the fair market value thereof on the dates of grant. At December 31, 1961, rights for 80,820 shares under the 1960 Plan had been subscribed; at that date, the 75,000 shares under the 1961 Plan had not been offered for subscription.

**(9) Pension plans:**

The Board of Directors of McCrory has approved, in principle, the combining of the separate non-contributory retirement plans covering McCrory-McLellan and former Green employees under a single plan to cover eligible employees of the McCrory-McLellan-Green Division, effective January 1, 1962. As under the separate plans, the cost of the continuing plan will be met, as required, by periodic contributions to the successor trust. Due to realized gains on sales of trust assets and actuarial gains, no 1961 contribution was deemed necessary and no provision for costs under these plans has been reflected in the 1961 statement of consolidated net income. If the Company had made provisions for 1961 pension costs, it is estimated that such costs would have amounted to $360,000 net of Federal tax benefit. Because of the 1961 investment and actuarial gains, no contribution may be required for several years.

Contributions of $360,000, net of Federal income tax benefit, required under the terms of other non-contributory retirement plans and profit sharing plans for employees of Oklahoma Tire and Supply, National Shirt Shops, and Economy Auto Stores Divisions, and Lerner Stores Corporation, paid or accrued during 1961, have been reflected in the accompanying statement of consolidated net income.

**(10) Lease commitments:**

At December 31, 1961, the minimum annual rentals upon property leased to the Company and its subsidiaries under leases expiring after December 31, 1964, amount to approximately $21,700,000, plus, in certain instances, real estate taxes, insurance, etc.

The Company remains contingently liable for the Butler Brothers and Metropolitan Stores liabilities assumed by the respective purchasers of their assets, including liability for rentals aggregating approximately $31,000,000 at December 31, 1961, under long-term leases expiring 1962-1985 transferred to the purchasers. The Company has received from the purchasers valid and enforceable agreements of assumption of liabilities and indemnification in form satisfactory to counsel for the Company.

**(11) Special items:**

Special items included in the accompanying consolidated financial statements for the year ended December 31, 1961 are as follows:

| | |
|---|---|
| Net gain on the sale of Metropolitan Stores, Ltd. . . | $2,539,655 |
| Refunds of prior years' Federal income taxes ($1,400,000 —see comments below) and other prior years' adjustments relating to H. L. Green Company, Inc. . . . | 1,081,491 |
| Expenses incident to the merger of H. L. Green Company, Inc. . . . . . . . . . . . . . . . . | (604,557) |
| | $3,016,589 |

As a result of an anticipated settlement with the Internal Revenue Service of claims for Federal income tax refunds relating to the loss incurred by the former H. L. Green Company, Inc. on the Olen net asset deficiency, the Company credited the excess ($1,400,000) of net refunds received during the year and prior periods over the estimated liability for amounts to be repaid to the U. S. Treasury to special credits, as of December 31, 1961.

**Note as to events subsequent to date of opinion of independent public accountants:**

McCrory Corporation, on April 10, 1962, made a tender offer to the minority Lerner Stores Corporation stockholders to purchase their remaining 127,880 shares of Lerner common stock at a price of $38 per share. This tender offer will expire on May 1, 1962.

# McCRORY VILLAGE

A complete one-stop shopping center to meet all modern shopping needs, McCrory Village will combine the various divisions of McCrory Corporation into one great store. It is the concrete expression of management's determination to supply all of the consumer's needs in one central shopping area. Although each McCrory department has its own entrance, the interior is a single vista displaying over 30,000 different items. McCrory Villages are planned for suburban areas in many parts of the U.S.


Under the McCrory Village sign each departmental entity will retain its own identity as well as its own store entrance.

## SHOPMOBILE

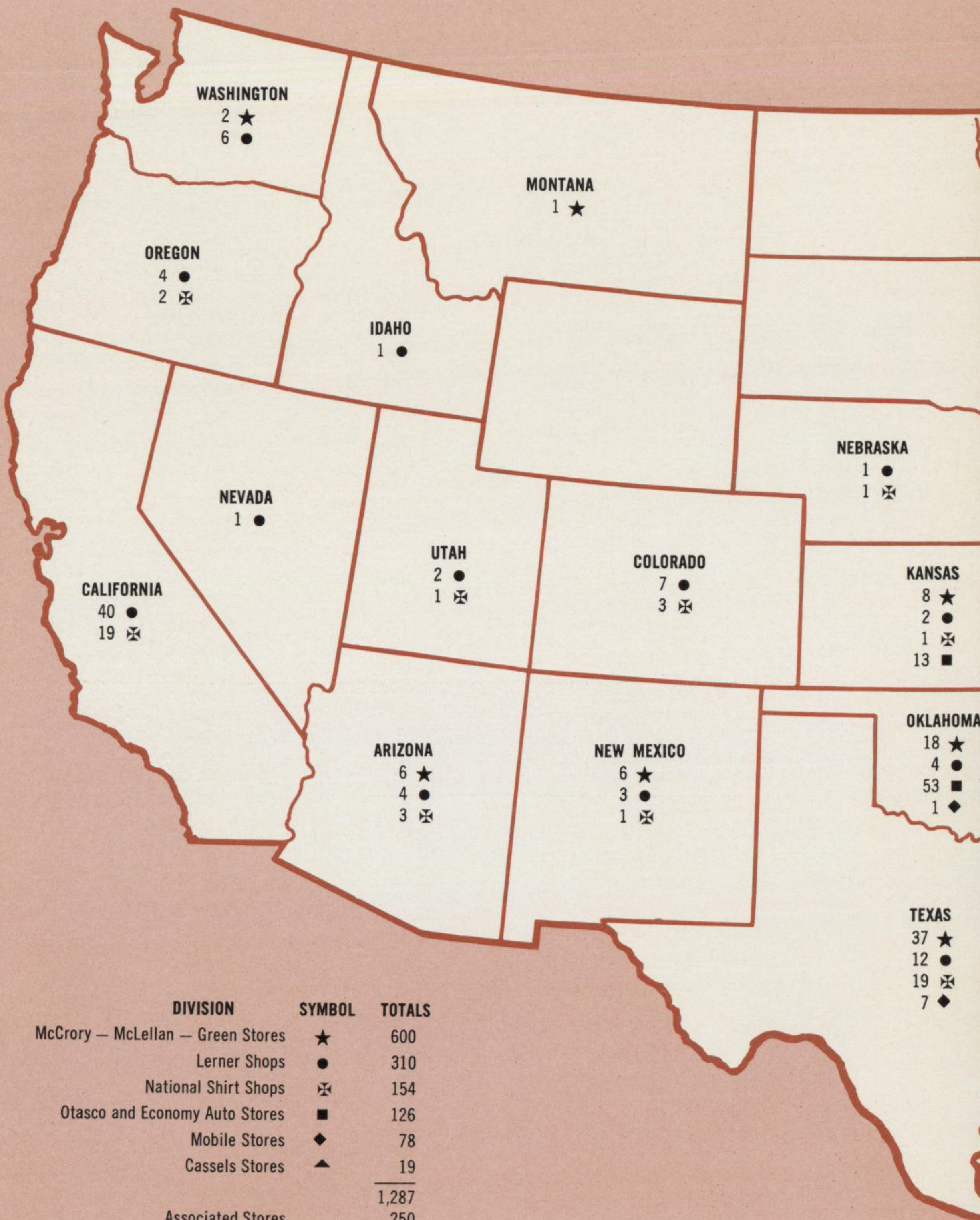

The Shopmobile, a McCrory's on wheels, is the company's own method of conveying the McCrory image and McCrory merchandise to rural America. Rolling through suburban and exurban areas, it brings variety and big-ticket items, appliances, apparel and a general merchandise catalogue to families who find it difficult to visit regular shopping areas. Wives whose husbands take the family car each morning appreciate McCrory's Shopmobile, which brings thousands of needed products practically to their door. The pilot Shopmobile is at present operating in the Orlando area of Florida on an experimental basis, selling merchandise and creating good will for McCrory wherever it goes. The Shopmobile, designated a Civil Defense vehicle, has a strong power generator, a public-address system and external floodlights.

## McLELLAN - OTASCO

A harbinger of retail developments to come, the combined McLellan-OTASCO center was successfully opened this year in downtown Stillwater, Okla., as a prototype of McCrory Junior Villages to be located throughout the country. The Stillwater store, operated as a single establishment, offers customers a vast diversity of merchandise — variety, automotive, home supply and soft goods.

# McCRORY

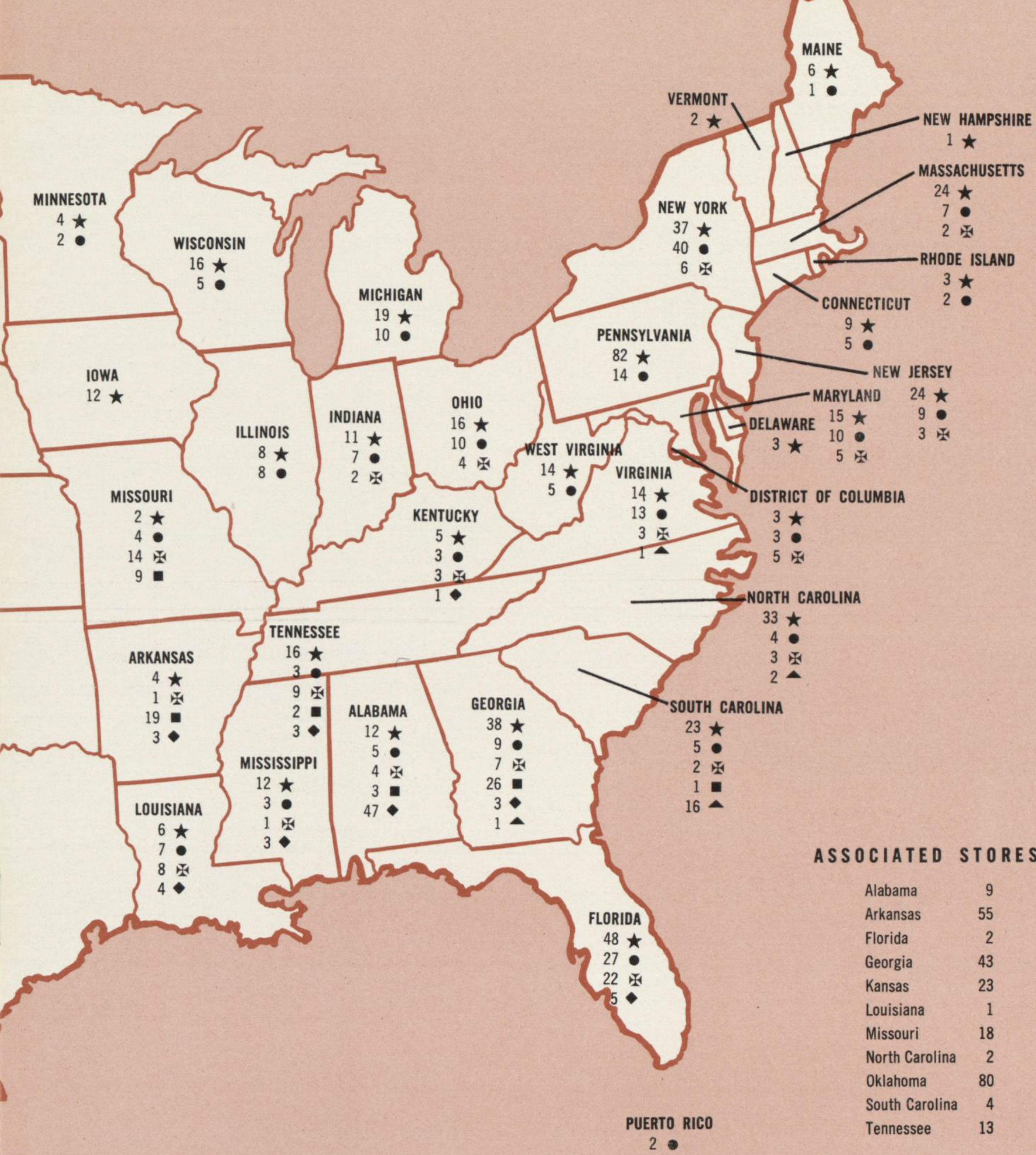
**1,537 Stores Throughout**




| DIVISION | SYMBOL | TOTALS |
|---|---|---|
| McCrory – McLellan – Green Stores | ★ | 600 |
| Lerner Shops | ● | 310 |
| National Shirt Shops | ✠ | 154 |
| Otasco and Economy Auto Stores | ■ | 126 |
| Mobile Stores | ◆ | 78 |
| Cassels Stores | ▲ | 19 |
| | | 1,287 |
| Associated Stores | | 250 |
| | | 1,537 |

# CORPORATION

**the U. S. and Puerto Rico**




**ASSOCIATED STORES**

| | |
|---|---|
| Alabama | 9 |
| Arkansas | 55 |
| Florida | 2 |
| Georgia | 43 |
| Kansas | 23 |
| Louisiana | 1 |
| Missouri | 18 |
| North Carolina | 2 |
| Oklahoma | 80 |
| South Carolina | 4 |
| Tennessee | 13 |

RAPID-AMERICAN CORPORATION

1961